

U.S. Nuclear Regulatory Commission

Accountability Report

Fiscal Year 1995



NRC Principles of Good Financial Management

Those who handle public resources have a special responsibility to safeguard the resources entrusted to them and to use them properly. Poor financial management by NRC can undermine the confidence that we are effectively accomplishing our health and safety mission. NRC managers must ensure that public funds are used for authorized purposes only and that they are used economically, efficiently, and within established limits. Toward these ends, the NRC uses the following Principles of Good Financial Management.

PLANNING. Good financial management begins with good planning. NRC's strategic planning should be based on sound assumptions and accurate information and should provide the foundation for the entire fiscal process. Resource requests must be consistent with program goals, guidance, and planning assumptions, and must consider current financial status. Plans should be developed for commitment and obligation of funds based on program needs, procurement lead times, and the need for continuity of funding.

CONTROL. Good financial management requires good financial control. Appropriate effective cost controls throughout the financial management process ensure adequate accounting of funds expended, prevent over-obligation of funds and inappropriate expenditures, identify early instances where funds should be reallocated, and produce valuable information for the planning process.

COMMUNICATION. Good financial management requires good communication among those involved in the financial management process. Complete, accurate, and timely financial information must be readily available, and financial implications must be considered in decision making. Financial systems should be integrated and meet both agency and office data needs. New information and ideas must be shared throughout the organization.

COST EFFECTIVENESS. Good financial management balances expenditures and results. Managers at all levels must ensure that NRC gets what it pays for and that the results are what NRC needs to accomplish its mission. Ongoing projects should be evaluated to ensure results justify continued funding. Appropriate precautions ensure that waste is avoided. To ensure maximum utility of available resources, funds should be obligated as early as practicable during the fiscal year, and excess funds should be deobligated as soon as practical after project completion.

EVALUATION. Good financial management requires periodic evaluation of performance against meaningful financial and program performance measures. Such performance assessment should evaluate planned versus actual program results as well as the comparison of program costs with program accomplishments.

PERSONNEL. Good financial management is the product of competent and motivated people. Those who are given financial management responsibility must have integrity, dedication and be well trained and qualified. They must have authority commensurate with their responsibility, and they must be recognized when they achieve superior performance.

Accountability Report

Fiscal Year 1995
U.S. Nuclear Regulatory Commission
Office of the Controller



The NRC's Mission:

To ensure adequate protection for the public health and safety, the common defense and security, and the environment in the civilian use of nuclear materials in the United States.

AVAILABILITY NOTICE

Availability of Reference Materials Cited in NRC Publications

Most documents cited in NRC publications will be available from one of the following sources:

1. The NRC Public Document Room, 2120 L Street, NW., Lower Level, Washington, DC 20555-0001
2. The Superintendent of Documents, U.S. Government Printing Office, P.O. Box 37082, Washington, DC 20402-9328
3. The National Technical Information Service, Springfield, VA 22161-0002

Although the listing that follows represents the majority of documents cited in NRC publications, it is not intended to be exhaustive.

Referenced documents available for inspection and copying for a fee from the NRC Public Document Room include NRC correspondence and internal NRC memoranda; NRC bulletins, circulars, information notices, inspection and investigation notices; licensee event reports; vendor reports and correspondence; Commission papers; and applicant and licensee documents and correspondence.

The following documents in the NUREG series are available for purchase from the Government Printing Office: formal NRC staff and contractor reports, NRC-sponsored conference proceedings, international agreement reports, grantee reports, and NRC booklets and brochures. Also available are regulatory guides, NRC regulations in the *Code of Federal Regulations*, and *Nuclear Regulatory Commission Issuances*.

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Documents available from public and special technical libraries include all open literature items, such as books, journal articles, and transactions. *Federal Register* notices, Federal and State legislation, and congressional reports can usually be obtained from these libraries.

Documents such as theses, dissertations, foreign reports and translations, and non-NRC conference proceedings are available for purchase from the organization sponsoring the publication cited.

Single copies of NRC draft reports are available free, to the extent of supply, upon written request to the Office of Administration, Distribution and Mail Services Section, U.S. Nuclear Regulatory Commission, Washington DC 20555-0001.

Copies of industry codes and standards used in a substantive manner in the NRC regulatory process are maintained at the NRC Library, Two White Flint North, 11545 Rockville Pike, Rockville, MD 20852-2738, for use by the public. Codes and standards are usually copyrighted and may be purchased from the originating organization or, if they are American National Standards, from the American National Standards Institute, 1430 Broadway, New York, NY 10018-3308.

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Foreword

The U.S. Nuclear Regulatory Commission (NRC) is one of six Federal agencies participating in a pilot project to streamline financial management reporting. The goal of this pilot is to consolidate performance-related reporting into a single accountability report. The project, which is being carried out under the guidance of the Chief Financial Officers Council, was undertaken in accordance with the Government Management Reform Act (GMRA) of 1994. The GMRA permits the streamlining of financial management reports in consultation with the appropriate Congressional Committees through a liaison in the U.S. Office of Management and Budget (OMB). The results of the pilot project will determine the method to be used for reporting financial management information for fiscal year (FY) 1996.

This report consolidates the information previously reported in the following documents:

- the NRC's annual financial statement required by the Chief Financial Officers Act of 1990
- the Chairman's annual report to the President and the Congress, required by the Federal Managers' Financial Integrity Act of 1982
- the Chairman's semiannual report to the Congress on management decisions and final actions on Office of Inspector General audit recommendations, required by the Inspector General Act of 1978, as amended

This report also includes performance measures, as required by the Chief Financial Officers Act of 1990.

Comments on the content and presentation of this report are welcome, and may be addressed as follows:

Office of the Controller
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001

Message From the Chairman



I am pleased to present the U.S. Nuclear Regulatory Commission's accountability report for FY1995. This report represents the NRC's efforts to streamline statutory performance-related reporting, in accordance with the Government Management Reform Act.

I have reported to the President and the Congress that the NRC's evaluation of its management control and financial management systems in FY1995 provided reasonable assurance that the NRC achieved the objectives of the Federal Managers' Financial Integrity Act. The evaluation disclosed no material weaknesses in the NRC's programs or administrative activities and no material non-conformances with government-wide requirements in the NRC's financial management systems.

The NRC has earned its reputation as the foremost nuclear regulatory body in the world, and we continue to work to improve our financial management and management controls to provide accountability and achieve the best possible support for our regulatory responsibilities. Despite our progress, I believe that the NRC still needs to be guided by a strategic vision. That strategic vision will embody an awareness of our mission and its mandatory bases, an ability to respond to a changing environment, including assumption of possible new elements of our mission, and continuing enhancement of effectiveness of our regulatory activities, with a firm health and safety basis. This strategic vision will undergird our regulatory approach, allowing us to develop and maintain an appropriate programmatic focus and to conduct appropriate resource planning, including personnel, technology and budget resources.

In line with the elements of the strategic vision, we have initiated a strategic assessment and rebaselining at the NRC. The purpose of this strategic assessment and rebaselining initiative is to analyze where the NRC is today and outline a path to take it where the Commission believes it should be in the future. This initiative is necessary to position us to meet effectively the challenges we face and to guide our activities and decision making in the future. The strategic assessment and rebaselining effort will enable the NRC to have a strategic plan that is the basis for the agency's planning and budgeting.

Shirley Ann Jackson
Chairman
U.S. Nuclear Regulatory Commission

Message From the Chief Financial Officer



The U.S. Nuclear Regulatory Commission (NRC) issued its first audited financial statement in fiscal year (FY) 1992, and received its first unqualified audit opinion in FY 1994. For FY 1995, I am pleased to report that the NRC again received an unqualified audit opinion. This opinion, containing no material weaknesses and a reduction in reportable conditions, reflects the high priority the NRC places on sound financial management and public accountability.

The NRC recently streamlined its management control program in response to the National Performance Review and the Office of Management and Budget Circular No. A-123, "Management Accountability and Control." Our streamlined program reinforces the concepts that management control is an integral part of day-to-day management at all levels of the organization, and that controls should be designed to benefit managers, not encumber them. This report describes the NRC's streamlined management control program.

We are continuing to improve our financial management systems with the goal of providing accurate, timely and useful information. During FY 1995, the NRC implemented an exception-based time and attendance reporting system that provides electronic submission and certification of time and attendance, and it is implementing an integrated payroll and personnel system. Additionally, the agency implemented a process to improve timeliness in issuing license fee invoices, which accounted for approximately \$500 million in revenue during FY 1995.

As we face new challenges presented by our changing environment, the NRC remains committed to ensuring adequate protection for the public health and safety, the common defense and security, and the environment in the civilian use of nuclear materials in the United States. Adherence to sound financial management practices is more critical than ever to ensure that we can carry out our responsibilities. Our goals are both to maintain the standards we have achieved, and to seek improved methods to conduct and account for financial and program performance.

James M. Taylor
Chief Financial Officer
U.S. Nuclear Regulatory Commission

About the U.S. Nuclear Regulatory Commission



The U.S. Nuclear Regulatory Commission (NRC) is an independent regulatory agency of the Federal Government that was created by the U.S. Congress to ensure adequate protection for the public health and safety, the common defense and security, and the environment in the civilian use of nuclear materials in the United States. Its purposes are defined by the Energy Reorganization Act of 1974, as amended, along with the Atomic Energy Act of 1954, as amended, which provide the foundation for regulating the nation's civilian uses of nuclear materials.

Organization

The NRC is headed by five Commissioners appointed by the President and confirmed by the Senate for 5-year terms. The President also designates one of these Commissioners as Chairman, to serve as the principal executive officer and official

spokesperson for the Commission. The Executive Director for Operations, as the chief operating and administrative officer of the NRC, carries out the policies and decisions made by the Commission. The Executive Director for Operations has also been designated as the NRC's Chief Financial Officer. (See Figure 13 in the Supplemental Financial and Management Information section for the NRC's organization chart.)

Regulatory Responsibility

The NRC's scope of responsibility includes regulating commercial nuclear power reactors; research, test, and training reactors; fuel cycle facilities; medical, academic, and industrial uses of nuclear materials; and the transport, storage, and disposal of nuclear materials and wastes. The NRC carries out its mission through a licensing and regulatory system that includes the following activities:

(continued on page 2)



*The Nuclear Regulatory
Commission Headquarters
in Rockville, Maryland*

- licensing the construction, operation, and decommissioning of nuclear reactors and other nuclear facilities (such as nuclear fuel cycle facilities, uranium enrichment facilities, and nonpower test and research reactors)
- licensing the possession, use, processing, handling, and exporting of nuclear materials
- licensing the siting, design, construction, operation, and closure of low-level radioactive waste disposal sites under NRC jurisdiction and the construction, operation, and closure of geologic repositories for high-level radioactive waste
- licensing the operators of nuclear power and nonpower (test and research) reactors
- inspecting licensed facilities and activities
- conducting research to provide independent expertise and information for making timely regulatory judgments and for anticipating problems of potential safety significance
- developing and implementing rules and regulations that govern licensed nuclear activities
- collecting, analyzing, and disseminating information about the operational safety of commercial nuclear power reactors and certain nonreactor activities

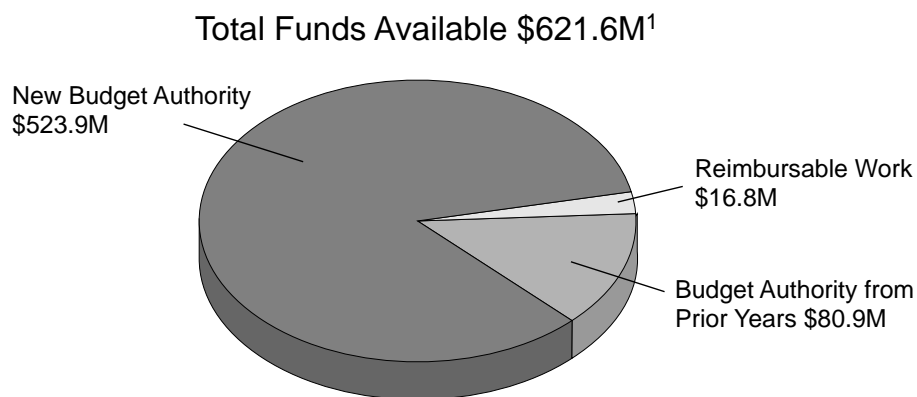
The NRC and its licensees share a common responsibility to protect the health and safety of the public. Federal regulations and the NRC regulatory program are important contributors in achieving this shared responsibility. NRC licensees, however, have the primary responsibility for the safe use of nuclear materials.

Sources of Funds

The NRC has two appropriations, and funds for both are available until expended. One appropriation is for agency salaries and expenses, and the other is earmarked for the Office of the Inspector General (OIG). The total new NRC budget authority for fiscal year (FY) 1995 was \$523.9¹ million, including \$518.8 million from the Salaries and Expenses appropriation, and \$5.1 million from the OIG appropriation. Additionally, \$80.9 million from prior-year appropriations was available to expend in FY 1995, and the NRC accepted new reimbursable work to be performed for others totaling \$16.8 million. The sum of all funds available to expend for FY 1995 was \$621.6 million. (See Figure 1.)

¹ Reflects \$1.7 million rescinded pursuant to the Emergency Supplemental Disaster Assistance and Rescissions Act of 1995.

Figure 1
Sources of NRC Funds



¹ Total funds available reflects NRC appropriated budget authority and reimbursable work. It excludes transfer appropriations from the General Services Administration (GSA), \$.8M, and the Agency for International Development (A.I.D.), \$.9M.

Other than appropriated funds, the NRC has limited assets. Capitalized personal property is limited to typical office furnishings, personal property acquired by contractors with NRC funds, nuclear reactor simulators, computer hardware, and off-the-shelf and customized computer software. The NRC has no real property, loan, or loan guarantee programs.

Uses of Funds by Function

As stated above, the total budget authority available for use by the NRC in FY 1995 was \$621.6 million. Of that amount, the NRC incurred obligations of \$557.9 million, with 46 percent used for salaries and benefits. An additional 54 percent was used to obtain technical assistance for the NRC's principal regulatory programs, to conduct confirmatory reactor safety research, to cover operating expenses (e.g., building rentals, transportation, printing, security services, supplies, office automation, and training), staff travel, and reimbursable work. (See Figure 2.) The remaining \$63.7 million (\$52 million from appropriations and \$11.7 million from reimbursable work) in budget authority that was not obligated in FY 1995 will be available to fund critical needs in FY 1996.

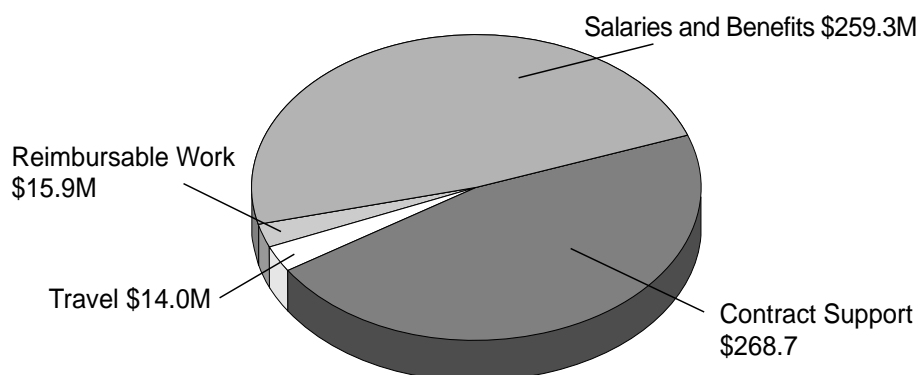
Financial Condition of NRC

As of September 30, 1995, the financial condition of the NRC is sound with respect to having sufficient funds to meet program needs and sufficient control of these funds to ensure that NRC obligations do not exceed budget authority. The Statement of Financial Position shows a net position (assets minus liabilities) of \$214.7 million. Consistent with the requirements of the Omnibus Budget Reconciliation Act of 1990, the NRC collected approximately 100 percent of its new budget authority, excluding the amount appropriated from the Nuclear Waste Fund.

Over the past few years, the NRC has made a concerted effort to increase the effectiveness and efficiency of program financing by eliminating unnecessary financial reserves pending contract closeout, recovering funds on dormant contracts, mitigating the rate of rent increases, exercising closer scrutiny of the need for planned projects, and more closely monitoring obligation and expenditure rates. On the one hand, the positive aspect of these efforts is that they represent prudent financial management. On the other hand, they result in \$52 million in unobligated appropriated funds. This is a higher than normal

(continued on page 4)

Figure 2
Uses of Funds by Function
Total Obligations \$557.9M¹



¹ Total obligations reflects obligations against NRC appropriated budget authority and reimbursable work; It excludes obligations against transfer appropriations from the General Services Administration (GSA), \$.005M, and the Agency for International Development (A.I.D.), \$1.6M.

level of unobligated carryover. The Commission has a goal to reduce unobligated balances at the end of the fiscal year to acceptable levels. We believe that good fiscal management and expenditure of funds on only sound program needs should be guiding principles, and we intend to aggressively pursue any further improvements that are needed to ensure that NRC's financial management is sound.

Over the last few years, the NRC has taken actions to reduce the level of unobligated balances

in an orderly manner. Specifically, the agency suggested a \$12.7M rescission during FY 1994 which the Congress enacted. The agency suggested a \$20M reduction to its proposed FY 1995 appropriation, which Congress also enacted. The NRC is using FY 1995 unobligated balances to facilitate the transition to a lower level of funding in FY 1996, while still adequately fulfilling its public health and safety mission.

Program Performance

This section highlights key aspects of the NRC's programs, including program goals and program performance measures required by the Chief Financial Officers (CFO) Act of 1990. The program performance measures are related to outcomes such as safety effectiveness, outputs such as inspection effort, and timeliness of actions.

During FY 1996, the NRC will further evaluate its program goals and program performance information, in order to strengthen quantitative and qualitative measures of outputs and outcomes for meeting the requirements of the Government and Performance Results Act (GPRA) of 1993. The GPRA requires agencies to establish long-range outcome goals reflected in a strategic plan, to develop program performance plans and program performance measures to support those goals, and to report on progress toward those goals. The NRC has an established framework for meeting the requirements of the GPRA.

The NRC is reassessing its mission, operations, and organization. The agency is currently in the first phase of this strategic assessment and rebaselining. This process will produce, or redefine, a new set of assumptions, goals, and strategies. In addition, the results of this reassessment will establish a basis for the strategic plan that will support the FY 1999 budget request and performance plan due September 1997 to the Office of Management and Budget (OMB), as required by the GPRA.

Reactor Program

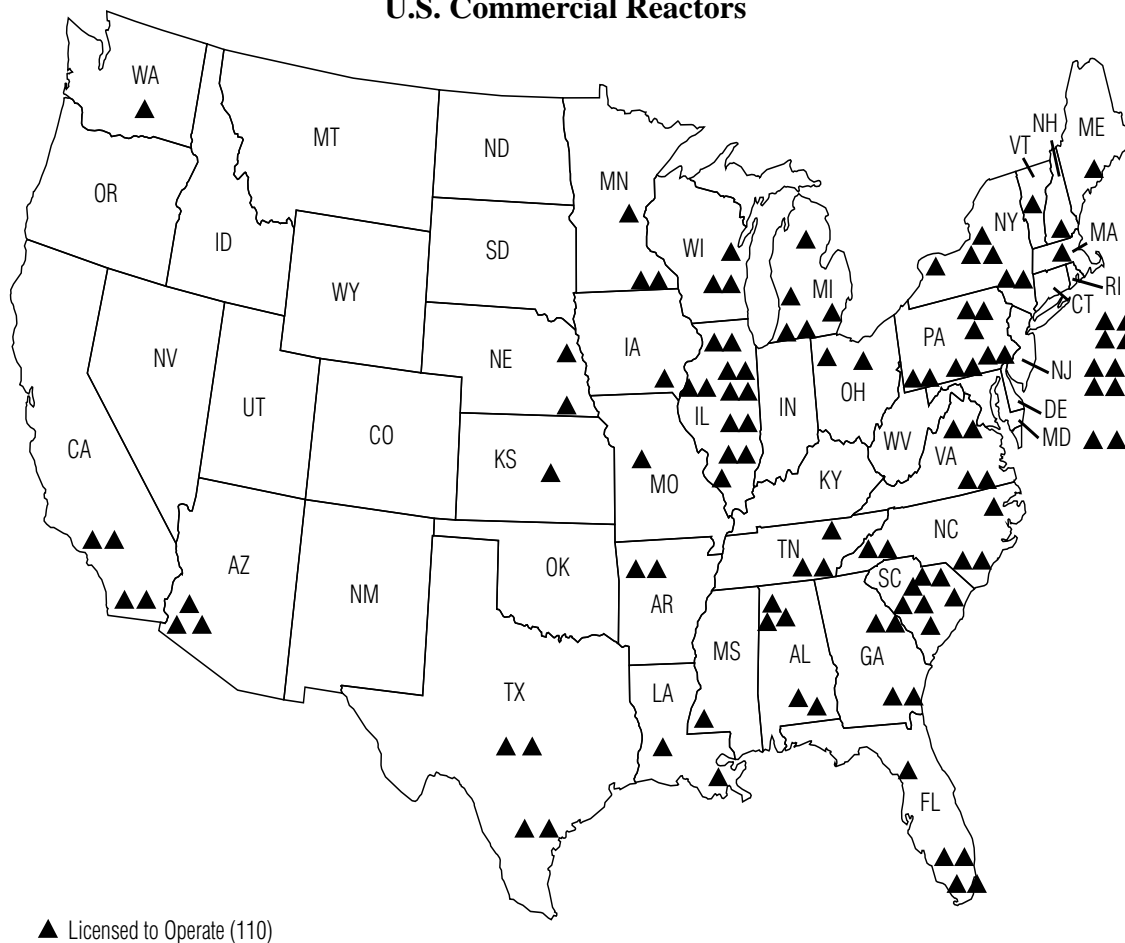
The Reactor Program encompasses all NRC inspection, oversight, and licensing of reactor facilities, as required by the Atomic Energy Act of 1954, as amended. The program also encompasses all reactor regulatory research, as required by the Energy Reorganization Act of 1974, as amended. In addition, the program encompasses all other functions associated with reactors, including evaluating safety concerns, assessing operational events and experience, training the NRC technical staff, providing independent reviews and legal advice to the Commission concerning safety issues, conducting adjudicatory reviews, investigating wrongdoing by reactor licensees, and implementing reactor enforcement policies and actions to protect the public health and safety.

(continued on page 6)

*Indian Point 1 (foreground);
Indian Point 2 (right-rear)*



Figure 3
U.S. Commercial Reactors



Note: There are no commercial reactors in Alaska or Hawaii.

The principal goals of the NRC's reactor program are to:

- Ensure that nuclear power plants and other licensed facilities are operated safely, and that licensees are adequately prepared to respond to accidents.
- Ensure that nuclear power plants under construction are designed and constructed properly, and are ready for safe operation.
- Ensure that adequate capabilities exist for licensing of evolutionary and advanced reactor designs and for reactor license renewal activities.

As of March 1, 1996, 110 commercial nuclear power reactors were licensed to operate at full power in 32 states. These reactors generate approximately 22 percent of the nation's electricity.

The NRC received no new applications for operating licenses or construction permits, and issued no new construction permits in FY 1995.

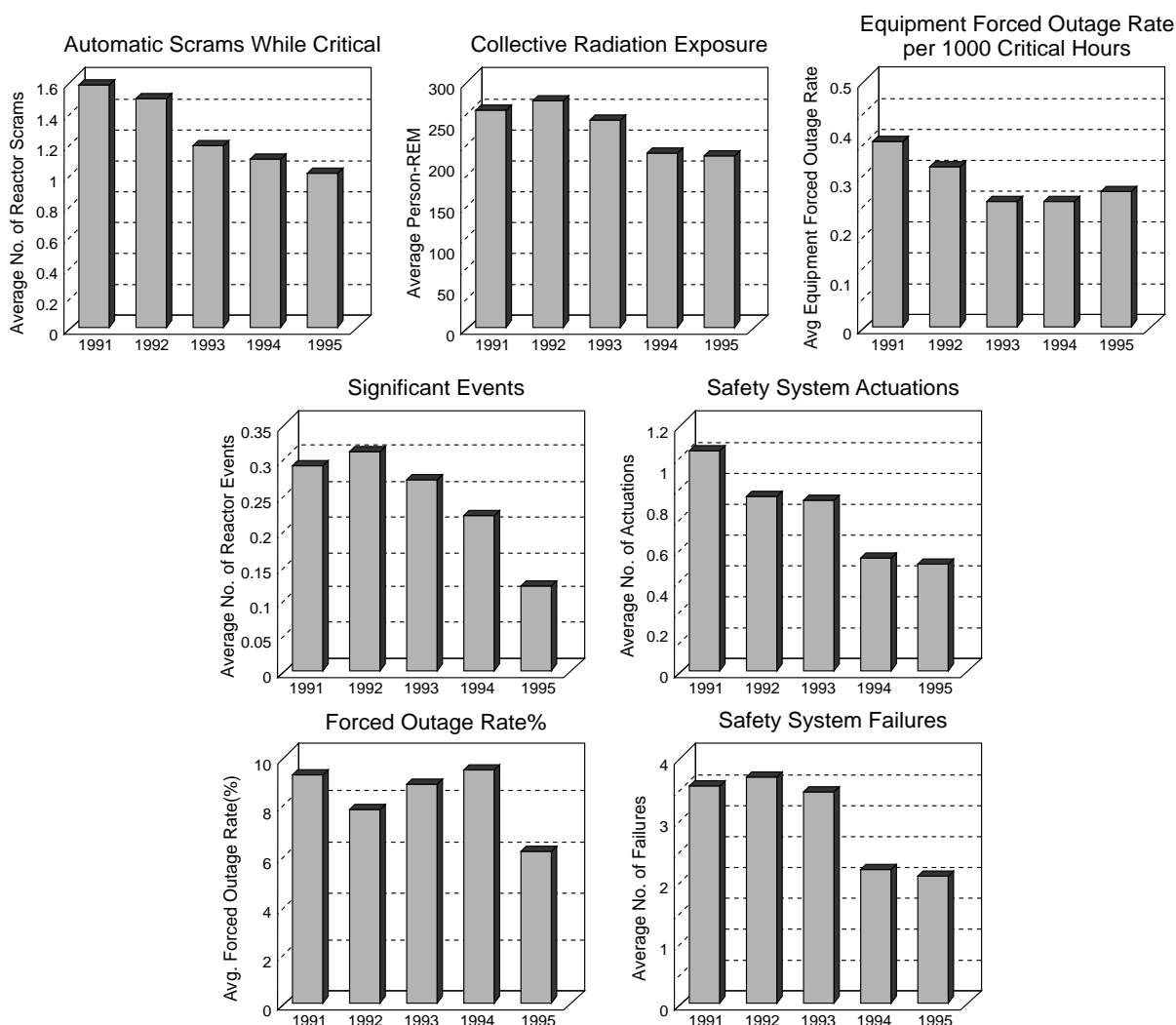
Licensee Safety Performance

Safe operation of nuclear facilities is the responsibility of NRC licensees, but regulatory oversight of licensee safety is the responsibility of the NRC. Consequently, the safety performance of licensees is partially a reflection of the NRC's performance; however, it is not possible to isolate the causal relationship or a specific set of factors that directly link NRC performance to licensee performance. Safety performance indicators reflect the collective results of the efforts of both the NRC and the nuclear industry. Certain trends in industry performance indicate that the NRC is succeeding in its mission to protect public health and safety.

Seven of the NRC-approved indicators of industry safety performance, including automatic scrams, significant events, safety system actuations, safety system failures, forced outage rate, equipment-forced outage rate, and collective radiation exposure are shown in Figure 4. Over the past 10 years, the general trend of these industry performance indicators has shown improved performance, however, the overall trend appears to have leveled off in recent years, even though several of the indicators continue to show slight improvement.

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Figure 4
Performance Indicators



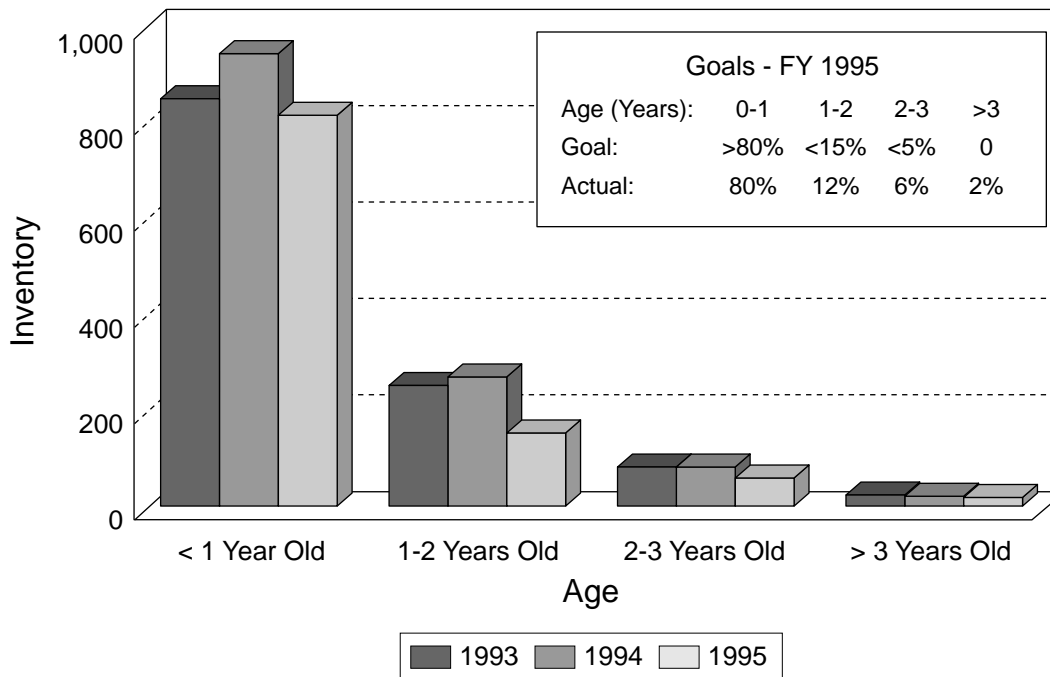
Licensing Actions for Operating Power Reactors

Either routine activity or unexpected events at a nuclear facility can result in a need for licensing actions by the NRC. During FY 1995, the NRC completed approximately 2061 licensing actions for operating power reactors. More than 99 percent of the actions in inventory are plant-specific amendments requested by licensees, and the rest are the result of NRC-imposed requirements. The total licensing action inventory has decreased significantly from 1293 licensing

actions at the end of FY 1994 to 1000 under review at the end of FY 1995.

The NRC has established goals to control the size and age of the licensing action inventory. These goals call for 80 percent of these actions to be 1 year old or less, 95 percent to be 2 years old or less, and all actions to be no more than 3 years old. Figure 5 shows the age of licensing actions in the inventory at the end of each year from FY 1993 through 1995.

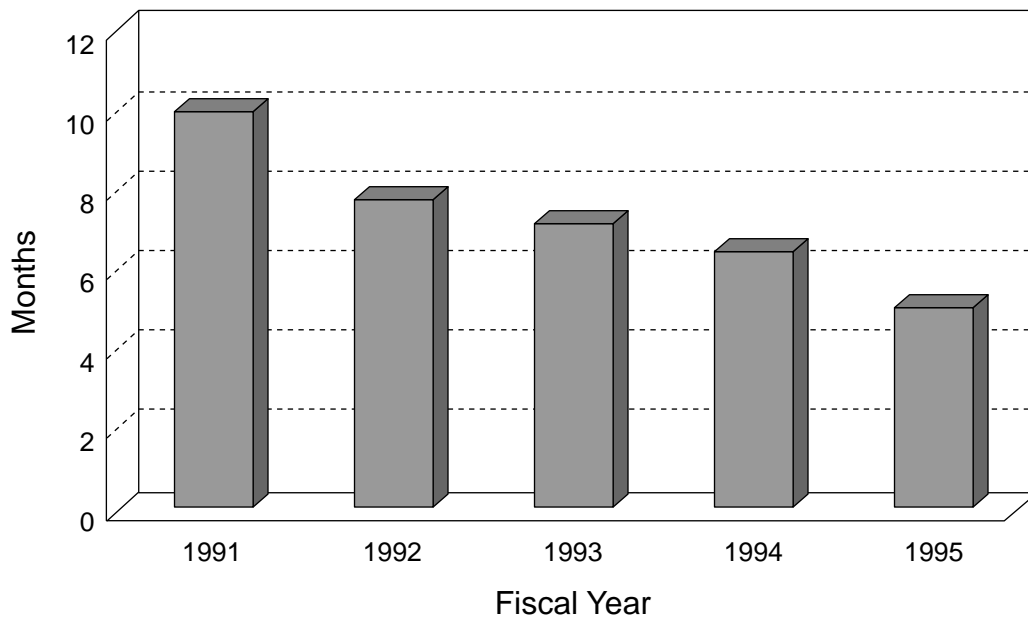
Figure 5
Age of Licensing Actions



From 1989 to 1995, the percentage of licensing actions more than 3 years old has dropped from 23 percent to less than 2 percent. Improvement has been made in the other aging categories as well. At the end of FY 1995, 80 percent of the licensing actions were 1 year old or less

(compared to less than 73 percent at the end of FY 1994) and more than 98 percent were 3 years old or less. As Figure 6 shows, the median age of the licensing action inventory also has decreased over time.

Figure 6
Licensing Actions
Median Age of Inventory



Inspection Activities

Three essential components of the NRC's reactor inspection program are to determine the state of reactor safety, to confirm that operations comply with the provisions of the license, and to ascertain whether other conditions exist with safety implications serious enough to warrant

corrective action. The NRC's reactor inspection program encompasses all applicant and licensee activity completed in connection with constructing and operating nuclear facilities. Most inspections are dedicated to operations at the plants licensed to operate, while a few inspections focus on facilities with construction permits.



The NRC assigns at least two resident inspectors to each operating reactor site. These resident inspectors concentrate on day-to-day licensee operations, event follow-up, licensee management, and staff performance. Region-based and NRC headquarters inspectors supplement the activities carried out by resident inspectors through a variety of program and technical inspections that afford an indepth look at licensee operations.

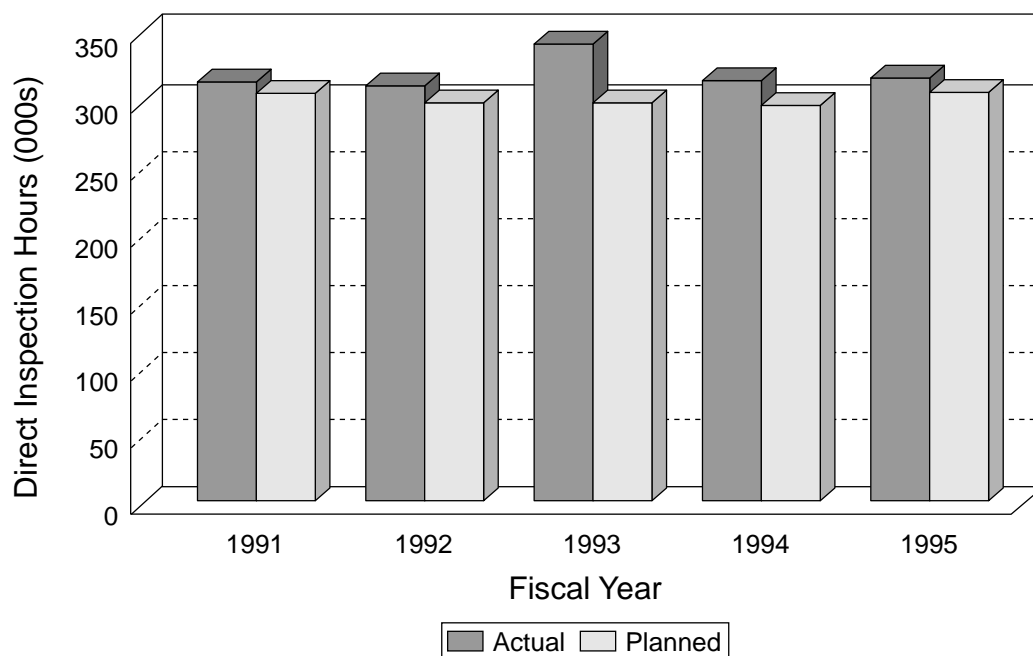
***Control Room
at a Nuclear Reactor***

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In 1995, the overall direct inspection effort totaled approximately 312,000 hours for all plants, exceeding the number of hours planned for inspection by 5 percent at operating reactors.

Figure 7 shows the use of allocated inspection resources in direct inspection activities by resident and region-based staff.

Figure 7
Direct Inspection
Actual vs. Planned



Nuclear Materials and Nuclear Waste Program

The Nuclear Materials and Nuclear Waste Program encompasses all NRC public health and safety, safeguards, research activities, operational data analysis, technical training, adjudicatory reviews, investigations, enforcement, and independent safety and legal advice related to the licensing, inspection, and environmental reviews for fuel cycle facilities; the transportation of nuclear materials; the safe interim storage of spent fuel; nuclear materials users; the safe management and disposal of low-level and high-level radioactive wastes; and uranium recovery and related remedial actions. This program also includes safeguards reviews for all licensing activities involving the export of special nuclear material and the integrated agency effort to oversee decontamination and decommissioning

of facilities and sites associated with NRC-licensed activities.

The principal goals of the Nuclear Materials and Nuclear Waste Program are as follows:

- Ensure that current and future uses and transportation of nuclear and radioactive materials are safe and have adequate safeguards.
- Ensure that high-level and low-level nuclear waste and uranium mill tailings are safely managed and disposed of.
- Ensure that facilities no longer in operation are adequately and safely monitored or decommissioned.

Approximately 22,000 licenses have been issued for medical, academic, and industrial uses of nuclear materials. About 30 percent of these materials licenses are administered by the NRC.



Medical Applications



Research Applications



Industrial Applications

Some of the Uses of Radioactive Materials

The remaining licenses are administered by the 29 “Agreement States” that, through a formal agreement with the NRC, have assumed regulatory responsibility over byproduct and source materials, and small quantities of special nuclear materials.

The NRC also licenses and inspects all commercial nuclear fuel facilities involved in processing and fabricating uranium ore into reactor fuel. Eight major facilities were licensed to operate in eight States at the end of FY 1995.

The NRC and some Agreement States have the licensing and regulatory responsibility for ensuring the safe management and disposal of low-level radioactive waste. Additionally, the NRC has the licensing and regulatory responsibility for ensuring the safe management and disposal of high-level radioactive waste.

Materials Licensing

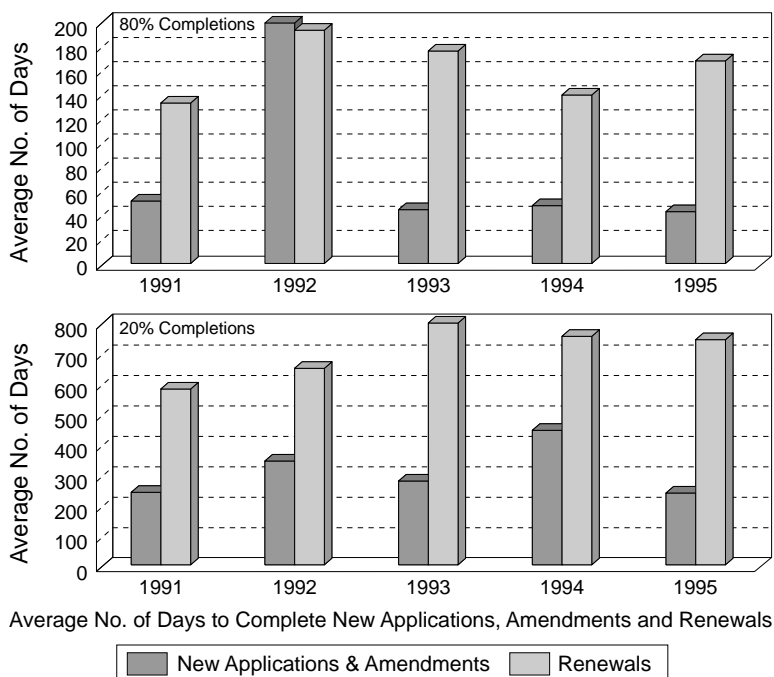
The NRC’s timeliness goal is to complete 80 percent of new applications and amendment requests for byproduct materials licenses within 90 calendar days of their receipt, and to complete the remainder within 180 calendar days of receipt. The goal for renewal applications is to complete 80 percent within 180 calendar days, and the remainder within 1 year. Backlogged reviews are those that exceed the timeliness goal.

During FY 1995, the NRC completed about 4200 licensing actions for materials users, including approximately 290 new licenses, 2880 license amendments, and 1050 license renewals. This number of

completions exceeded the NRC’s projections by 4 percent. Also, the NRC reduced the number of pending licensing actions from 1560 at the end of FY 1994 to 1445 at the end of FY 1995. Of these licensing actions, 223 were backlogged at the end of FY 1995, reflecting a decrease of approximately 30 percent in backlogged actions. For reviews completed during each of the last 5 years, Figure 8 shows the average time required to complete new, amendment, and renewal licenses for byproduct materials.

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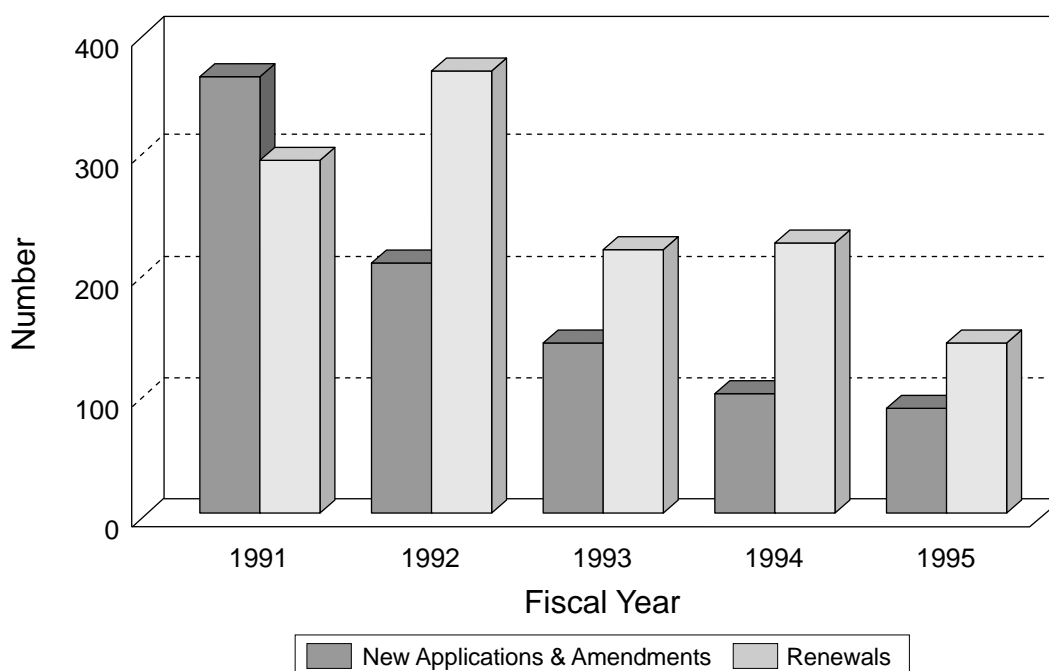
Figure 8
Materials Licensing Reviews
Timeliness of Reviews Completed Each Fiscal Year



The 1991 “100-percent fee recovery” rule brought about an unexpectedly high number of requests from licensees to terminate or combine licenses in order to reduce their fees. Consequently, this rule resulted in an increase in the average number of days to complete reviews in FY 1991 through 1995, which in turn led to an accumulation of backlogged licensing work (see Figure 9), particularly in FY 1991 and FY 1992.

The materials licensing reviews backlog chart presents a different perspective on the NRC’s timeliness in processing licensing actions. This chart measures the number of actions to be completed at the end of each fiscal year that exceeded the timeliness goals expressed above. In addition, this chart shows that the NRC has significantly reduced the number of backlogged reviews, particularly license renewals, in the past 3 years.

Figure 9
Materials Licensing Reviews
Backlog



This is consistent with the increases shown in the materials licensing reviews timeliness chart (Figure 8), with each reflecting the completion of many previously backlogged reviews. (As the old inventory is cleared out, the backlog decreases, but the average time to complete reviews increases.)

In FY 1995, the NRC started the business process reengineering (BPR) project to improve the materials licensing process. The long term-goal of the BPR process is to establish more efficient and potentially automated processing of materials license and amendment requests. The project will

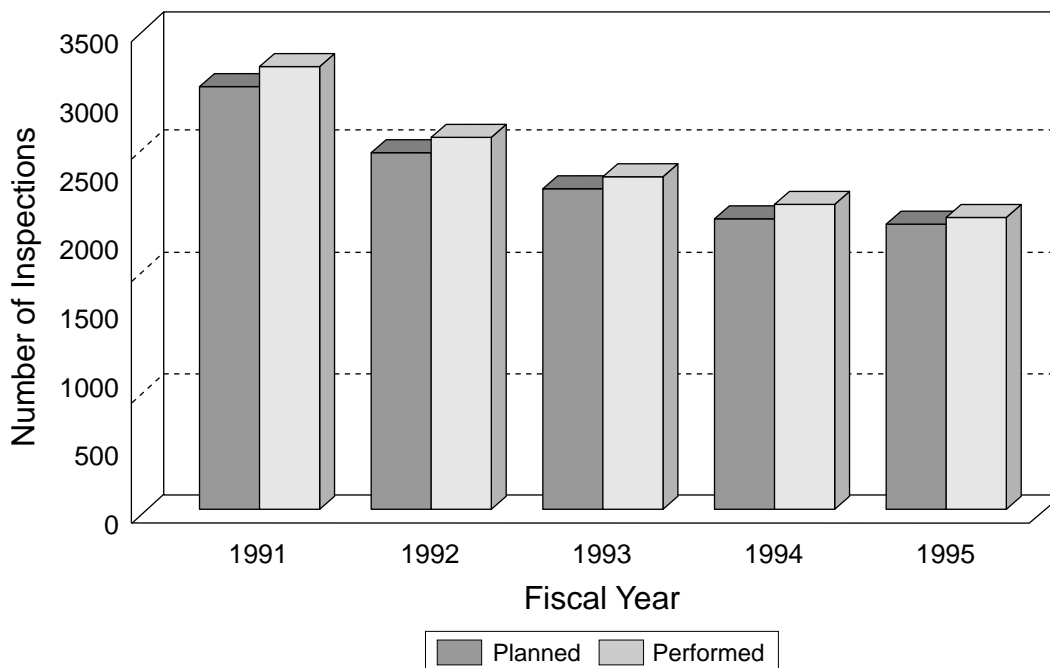
determine ways to streamline, automate, and avoid duplication of effort in processing license requests. As a result, the project is expected to provide cost savings in terms of resources needed for the NRC materials licensing process, improve communications with materials licensees, and generally speed up the materials licensing process. In January 1996, NRC amended its regulations to implement, on a one-time basis, a five-year extension of certain byproduct, source, and special nuclear materials licenses. The regulations were amended to make resources available to expedite the development, design,

and testing of the new materials licensing process. However, during the BPR project, the NRC will continue to review complex backlogged licensing cases. These cases are likely to be labor-intensive, and include those with the largest potential for health and safety concerns. It is anticipated that the BPR project will maintain or improve radioactive materials safety, while greatly reducing the amount of time necessary to review materials licensing actions.

Materials Inspections

During FY 1995, the NRC completed approximately 2100 inspections of materials facilities, exceeding the planned number of inspections by 3 percent (Figure 10). Over the last 5 years, the number of materials licensees has declined; therefore, fewer materials inspections were planned and performed each year.

Figure 10
Materials Inspections



FY 1995 Audited Financial Statement

Limitations of Principal Statements

The principal statements have been prepared to report the financial position and results of operations of the NRC, pursuant to the requirements of the Chief Financial Officers Act of 1990. These statements have been prepared from the books and records of the NRC in accordance with the formats prescribed by the Office of Management and Budget. However, these statements differ from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The principal statements should be read with the realization that they are for a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Other limitations are included in the footnotes to the principal statements.

The NRC's FY 1995 financial statement was audited by the NRC's Office of Inspector General (OIG). This section contains the results of the OIG audit, including the financial statement.



**UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, DC 20555-0001**

March 1, 1996

MEMORANDUM TO: Chairman Jackson
Commissioner Rogers
Commissioner Dicus

FROM: Leo J. Norton
Acting Inspector General

SUBJECT: RESULTS OF THE AUDIT OF U.S. NUCLEAR
REGULATORY COMMISSION'S FISCAL YEAR
1995 FINANCIAL STATEMENTS

Attached is the Office of the Inspector General's audit report of the U.S. Nuclear Regulatory Commission's (NRC) Fiscal Year 1995 financial statements. The report consists of five sections: a synopsis of the various individual audit reports which comprise the overall report; the report on the principal statements; the principal statements; the opinion on management's assertions about the effectiveness of internal controls; structure; and, the report on compliance with laws and regulations. Written comments were obtained from the Chief Financial Officer (CFO) and are included as an appendix to our reports.

In the report on the NRC's Fiscal Year 1995 Principal Financial Statements, we issued an unqualified opinion on the Statement of Financial Position, and the Statements of Operations, Cash Flows, and Budget and Actual Expenses.

In the opinion on management's assertions about the effectiveness of internal controls, we identified a condition related to NRC's fee recovery system that existed during Fiscal Year 1995. In addition to NRC's planned corrective actions, we made one recommendation for improvement. This same issue is reported in the Report on Compliance with Laws and Regulations.

On February 23, 1996, the Chief Financial Officer (CFO) responded to our draft report dated February 15, 1996. The CFO noted that corrective action was underway to remedy the deficiencies and agreed with our recommendation for a root cause determination. He also stated his appreciation for our support on the Department of Energy audit issue. We appreciate NRC staff's cooperation and continued interest in improving financial management within NRC.

SYNOPSIS OF FISCAL YEAR 1995 AUDIT OF NRC'S PRINCIPAL FINANCIAL STATEMENTS

The Office of the Inspector General (OIG) is required by the Chief Financial Officers Act to annually audit the Principal Financial Statements of the U.S. Nuclear Regulatory Commission (NRC). OIG audited the principal statements for the fiscal year (FY) ended September 30, 1995, including assessing the agency's internal control structure and compliance with applicable laws and regulations. The audit was performed for the purpose of forming an opinion on the Principal Financial Statements. The information in the Overview of NRC's Financial Statements and the Supplemental Information sections is not a required part of the Principal Financial Statements, but is supplementary information required by the Office of Management and Budget Bulletin 94-01. Although we reviewed this information, it was not subjected to the auditing procedures applied in the audit of the Principal Financial Statements, and accordingly, we express no opinion on it.

The results of the audit of each major area are summarized as follows:

Principal Financial Statements

- OIG issued an unqualified opinion on NRC's Principal Financial Statements as of September 30, 1995.

Internal Control Structure

- OIG found three reportable conditions. These concerned (1) inadequate internal controls in the fee recovery system to ensure that the licensees are billed for work performed on their behalf; (2) the lack of audit assurance from DOE concerning the DOE's National Laboratories compliance with laws and regulations for the expenditure of NRC funds, and (3) the need for an integrated payroll system with labor distribution capabilities.
- Based on corrective actions taken in FY 1995, OIG closed the prior reportable conditions concerning (1) the timeliness of NRC's billing practices, and (2) the need to formalize NRC's property system.

(continued on page 20)

Compliance with Laws and Regulations

- OIG found that inadequate internal control resulted in instances where licensees were not billed for specific services performed for their benefit. Therefore, the charges for the services were being billed to all reactor licensees under the authority of 10 CFR Part 171, “Annual Fees ...”, instead of under the authority of 10 CFR Part 170, “Fees ... for Regulatory Services”.
- Based on the corrective actions taken in FY 1995, OIG closed the FY 1994 compliance finding concerning billing issues related to NRR’s Technical Assistance Program Support System (TAPPS).

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APPENDIX

COMMENTS OF THE CHIEF FINANCIAL OFFICER

INSPECTOR GENERAL'S REPORT ON PRINCIPAL STATEMENTS

The Office of the Inspector General (OIG) has audited the accompanying principal statements of financial position of the U.S. Nuclear Regulatory Commission (NRC), as of September 30, 1995, and the related principal statements of operations and changes in net position, cash flows, and budget and actual expenses for the fiscal year then ended. NRC management is responsible for preparing these financial statements. Our responsibility is to express an opinion on the financial statements based on our audits. The financial statements of the U.S. Nuclear Regulatory Commission as of September 30, 1994, were audited by other auditors, whose report dated March 10, 1995, expressed an unqualified opinion on those statements.

SCOPE

OIG conducted its audits in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the principal statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these statements, including the notes attached thereto. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation.

The Federal Accounting Standards Advisory Board is currently studying accounting principles. Generally accepted accounting principles for Federal entities will be issued by the Comptroller General and the Director of the Office of Management and Budget based on advice from the Board. In the interim, Federal agencies follow the applicable accounting standards contained in agency accounting policy, procedures manuals, and/or related guidance. The summary of significant accounting principles included in the Notes to Principal Statements, Note 1, describes the accounting principles used by the U.S. Nuclear Regulatory Commission to prepare the principal statements.

MATTER OF EMPHASIS

NRC's principal statements include reimbursable expenses of the U.S. Department of Energy's (DOE) National Laboratories. For Fiscal Year 1995, NRC's Statement of Operations included about \$110 million of reimbursable expenses, which represents approximately 20 percent of the NRC's total expenses. Our 1995 audit included testing of these expenses and financing sources for compliance with laws and regulations within NRC. The work placed with DOE is under the

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auspices of a Memorandum of Understanding between NRC and DOE. The examination of the DOE National Laboratories for compliance with laws and regulations is DOE's responsibility. This responsibility was further clarified by a memorandum of the General Accounting Office's Assistant General Counsel, dated March 6, 1995, where he opined that "...DOE's inability to assure that its contractors' costs [National Laboratories] are legal and proper...does not compel a conclusion that the NRC has failed to comply with laws and regulations." DOE also has the cognizant responsibility to assure audit resolution and should provide the results of its audits to NRC. (See our reports on Management's Assertion About The Effectiveness of Internal Controls and on Compliance with Laws and Regulations).

OPINION

In our opinion, the principal statements present fairly, in all material respects, the financial position of the U.S. Nuclear Regulatory Commission on September 30, 1995, the results of its operations and changes in net position, the cash flows, and the status of budget to actual expenses for the fiscal year then ended in conformity with the accounting principles described in Note 1.

Our audits were conducted for the purpose of forming an opinion on the principal statements described above.

STATEMENT OF FINANCIAL POSITION
September 30, 1995 and 1994

ASSETS	<u>1995</u>	<u>1994</u>
Entity Assets:		
Intragovernmental assets:		
Fund balances with Treasury (Note 2)	\$258,602,386	262,192,247
Accounts receivable, net (Note 3)	8,231,231	5,802,642
Advances and prepayments (Note 4)	2,466,180	2,672,160
Governmental assets:		
Accounts receivable, net (Note 3)	28,310,335	59,136,473
Advances and prepayments (Note 4)	695,961	860,126
Inventory not held for sale		630,517
Property and equipment, net (Note 5)	<u>37,175,412</u>	<u>40,487,377</u>
Total entity assets	<u>\$335,481,505</u>	<u>371,781,542</u>
Non-Entity Assets:		
Governmental assets:		
Accounts receivable, net (Note 3)	<u>692,881</u>	<u>856,102</u>
Total non-entity assets	<u>692,881</u>	<u>856,102</u>
Total assets	<u>\$336,174,386</u>	<u>\$372,637,644</u>

(continued on page 26)

The accompanying notes to the principal statements
are an integral part of this statement.

STATEMENT OF FINANCIAL POSITION (Continued)
September 30, 1995 and 1994

	<u>1995</u>	<u>1994</u>
LIABILITIES		
Liabilities Covered By Budgetary Resources:		
Intragovernmental liabilities:		
Accounts payable and advances (Note 6)	\$12,989,462	\$14,636,020
Other intragovernmental liabilities (Note 8)	41,532,847	64,711,721
Governmental liabilities:		
Accounts payable (Note 6)	22,515,321	25,513,612
Other governmental liabilities (Note 8)	8,324,101	12,898,358
Accrued payroll and benefits (Note 7)	<u>10,276,907</u>	<u>9,683,599</u>
Total liabilities covered by budgetary resources	<u>95,638,638</u>	<u>127,443,310</u>
Liabilities Not Covered By Budgetary Resources:		
Governmental liabilities:		
Other governmental liabilities (Note 9)	<u>25,825,458</u>	<u>25,653,480</u>
Total liabilities not covered by budgetary resources	<u>25,825,458</u>	<u>25,653,480</u>
Total liabilities	<u>121,464,096</u>	<u>153,096,790</u>
NET POSITION		
Balances (Note 11):		
Unexpended appropriations	203,360,336	204,076,440
Invested capital	37,175,412	41,117,894
Future funding requirements	<u>(25,825,458)</u>	<u>(25,653,480)</u>
Total net position	<u>214,710,290</u>	<u>219,540,854</u>
Total liabilities and net position	<u>\$336,174,386</u>	<u>\$372,637,644</u>

The accompanying notes to the principal statements
are an integral part of this statement.

STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
for the years ended September 30, 1995 and 1994

	<u>1995</u>	<u>1994</u>
REVENUES AND FINANCING SOURCES		
Appropriated capital used (Note 12)	\$ 35,558,585	\$ 48,228,503
Other revenues and financing sources (Note 13)	492,783,452	502,577,448
Excess current year receipts of fees over billings	23,015,654	4,975,171
Less: Receipts transferred to the Treasury or other agencies	<u>(3,518,733)</u>	<u>(5,316,616)</u>
Total revenues and financing sources	<u>547,838,958</u>	<u>550,464,506</u>
EXPENSES		
Program Expenses (Note 14)		
Salaries and expenses	534,023,349	527,572,456
Office of Inspector General	<u>4,557,825</u>	<u>4,673,069</u>
Total program expenses (Note 14)	<u>538,581,174</u>	<u>532,245,525</u>
Depreciation (Note 5)	9,129,575	16,541,573
Interest	13,143	18,458
Other expenses (Note 16)	<u>287,045</u>	<u>1,679,729</u>
Total expenses	<u>548,010,937</u>	<u>550,485,285</u>
Shortage of revenues and financing sources over total expenses (Note 17)	<u>\$ (171,979)</u>	<u>\$ (20,779)</u>
Net position, beginning balance	\$219,540,854	\$222,453,475
Excess (shortage) of revenues and financing sources over expenses	(171,979)	(20,779)
Plus non-operating changes (Note 18)	<u>(4,658,585)</u>	<u>(2,891,842)</u>
Net position, ending balance	<u>\$ 214,710,290</u>	<u>\$219,540,854</u>

(continued on page 28)

The accompanying notes to the principal statements
are an integral part of this statement.

STATEMENT OF CASH FLOWS
for the years ended September 30, 1995 and 1994

	<u>1995</u>	<u>1994</u>
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash Provided:		
Fees for licensing and inspection and other services (Note 12)	\$501,871,000	\$ 499,575,640
Other operating cash provided	<u>16,852,614</u>	<u>14,998,142</u>
Total cash provided	<u>\$518,723,614</u>	<u>514,573,782</u>
Cash Used:		
Personnel services and benefits	(266,399,073)	(260,441,540)
Travel and transportation	(16,238,339)	(17,458,136)
Rent, communications and utilities	(25,804,325)	(22,668,680)
Printing and reproduction	(2,132,047)	(1,921,611)
Other contractual services	(224,466,951)	(216,426,480)
Supplies and materials	(11,372,953)	(15,431,525)
Insurance claims and indemnities	(131,742)	(40,416)
Grants, subsidies and contributions	(1,378,879)	(1,110,957)
Other operating cash used	<u>(5,406,669)</u>	<u>(5,940,601)</u>
Total cash used	<u>(553,330,978)</u>	<u>(541,439,946)</u>
Net cash provided (used) by Operating activities	<u>(34,607,364)</u>	<u>(26,866,164)</u>
CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(7,101,108)</u>	<u>(19,763,758)</u>
Net cash used by investing activities	<u>(7,101,108)</u>	<u>(19,763,758)</u>
CASH PROVIDED (USED) BY FINANCING ACTIVITIES		
Appropriations	22,000,000	35,338,847
Add: Transfers of cash from others	<u>8,900,000</u>	<u>9,912,300</u>
Net appropriations	<u>30,900,000</u>	<u>45,251,147</u>
Fee collections not used to offset current year's appropriation	<u>7,218,611</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>38,118,611</u>	<u>45,251,147</u>

The accompanying notes to the principal statements
are an integral part of this statement.

STATEMENT OF CASH FLOWS (Continued)
for the years ended September 30, 1995 and 1994

	<u>1995</u>	<u>1994</u>
Net cash provided (used) by operating, investing and financing activities	(3,589,861)	(1,378,775)
Fund balances with Treasury, beginning	<u>262,192,247</u>	<u>263,571,022</u>
Fund balances with Treasury, ending	<u>\$258,602,386</u>	<u>\$ 262,192,247</u>
Reconciliation of Shortage of Revenues and Financing Sources Over Total Expenses:		
Excess (Shortage) of Revenue and Financing Sources Over Total Expenses	\$ (171,979)	\$ (20,779)
Adjustments to Reconcile Shortage Of Revenues and Financing Sources Over Total Expenses to Net Cash Provided by Operating Activities:		
Appropriated Capital Used	(35,558,585)	(48,228,503)
Decrease (Increase) in Accounts Receivable	(254,047)	76,513
Decrease (Increase) in Other Assets	370,145	(1,394,091)
Increase (Decrease) in Accounts Payable	(6,227,518)	1,566,781
Increase (Decrease) in Other Liabilities	(3,980,949)	6,151,142
Depreciation and Amortization	9,129,575	16,541,573
Other Unfunded Expenses	171,979	20,779
Other Adjustments	<u>1,914,015</u>	<u>(1,579,579)</u>
Total adjustments	<u>(34,435,385)</u>	<u>(26,845,385)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$(34,607,364)</u>	<u>\$(26,866,164)</u>
Supplemental Schedule of Financing and Investing Activity:		
Property and Equipment Acquired Under Capital Lease Obligations	<u>\$ 0</u>	<u>\$ 894,856</u>

The accompanying notes to the principal statements
are an integral part of this statement.

(continued on page 30)

STATEMENT OF BUDGET AND ACTUAL EXPENSES
for the years ended September 30, 1995 and 1994

Program Name	Resources	Budget		Actual 1995 Expenses	Actual 1994 Expenses
		Direct	Obligations Reimbursements		
Salaries and expenses Office of Inspector General	\$625,685,531 <u>5,573,272</u>	\$538,923,062 <u>4,655,345</u>	\$15,892,958 <u>24,000</u>	\$543,453,112 <u>4,557,825</u>	\$545,812,216 <u>4,673,069</u>
Totals	<u>\$631,258,803</u>	<u>\$543,578,407</u>	<u>\$15,916,958</u>	<u>\$548,010,937</u>	<u>\$550,485,285</u>
Budget Reconciliation:					
Total expenses				\$548,010,937	\$550,485,285
Add: Capital acquisitions				7,101,108	23,723,975
Other expended budget authority				(1,914,015)	(2,011,258)
Less: Expenses not covered by available budgetary resources:					
Depreciation				(9,129,575)	(16,541,573)
Unfunded annual leave expense				(140,435)	66,910
Unfunded Workers' Compensation expense				<u>(31,544)</u>	<u>(87,689)</u>
Accrued expenditures				543,896,476	555,635,650
Less reimbursements (Acct 5200)			<u>(10,409,373)</u>	<u>(2,660,362)</u>	
Accrued expenditures, direct				<u>\$533,487,103</u>	<u>\$552,975,288</u>

The accompanying notes to the principal statements
are an integral part of this statement.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Presentation*

These principal statements were prepared to report the financial position and results of operations of the U.S. Nuclear Regulatory Commission (NRC) as required by the Chief Financial Officers Act of 1990. The principal statements were prepared from the books and records of NRC in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 94-01 and NRC accounting policies summarized in this note. These statements are therefore different from the financial reports, also prepared by NRC pursuant to OMB directives, which are used to monitor and control NRC's use of budgetary resources.

B. *Reporting Entity/Program Name*

NRC is an independent agency of the Federal Government created by the Energy Reorganization Act of 1974, as amended. Its purposes are defined by the Energy Reorganization Act of 1974, as amended, and the Atomic Energy Act of 1954, as amended. NRC was created by the U.S. Congress to ensure adequate protection of the public health and safety, common defense and security, and the environment in the civilian use of nuclear materials in the United States.

NRC has two appropriations:

- 31X0200 - Salaries and Expenses
- 31X0300 - Office of Inspector General

The 31X0200 appropriation includes approximately \$22 million for both Fiscal Year 1995 and 1994, respectively, of funds transferred from the Department of Energy, Nuclear Waste Fund to NRC in accordance with the provisions of PL 103-316 and PL 103-126. Public Law 104-19 rescinded \$1.7 million from the Fiscal Year 1995 NRC Salaries and Expenses Appropriation.

In addition, in Fiscal Years 1995 and 1994, \$8.9 million and \$5.5 million, respectively, of the appropriation received by the U.S. Agency for International Development was transferred for the Nuclear Safety Assistance Program in Russia and the Ukraine which is under the control of NRC.

(continued on page 32)

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

Additionally, approximately \$4.4 million of the appropriation received by the General Services Administration (GSA), were transferred to NRC for the operation and repair of certain buildings occupied by NRC for Fiscal Year 1994.

The accompanying financial statements of NRC include the accounts of all funds under NRC control.

C. *Budgets and Budgetary Accounting*

For the past 21 years, Congress has adopted no-year appropriations which are available for obligation by NRC until expended. The Omnibus Budget Reconciliation Act (OBRA) of 1990 requires NRC to recover approximately 100 percent of its new budget authority, less the amount appropriated from Nuclear Waste Fund, by assessing fees. At the end of the fiscal year, NRC's appropriations are reduced by the amount of revenues collected during the fiscal year.

D. *Basis of Accounting*

Transactions are recorded on both an accrual accounting basis and on a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

E. *Revenues and Other Financing Sources*

Licensing fees and fees for inspections and other services assessed in accordance with OBRA are recognized as other financing sources when earned.

For reporting purposes, appropriations are recognized as revenues (Appropriated Capital Used) at the time expenses are accrued. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years' appropriations. Appropriations expended for property and equipment are recognized as expenses when the asset is consumed in operations (depreciation). Appropriated Capital Used does not include appropriations used to purchase capital items or expenses incurred but not yet funded by Congress, such as Workers' Compensation benefits and annual leave expenses. The differences between the

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

accrual basis recognition of appropriations expensed and the budgetary basis recognition of outlays are presented in the Statement of Budget and Actual Expenses.

Miscellaneous receipts collected by NRC are not available to NRC for obligation or expenditure. These receipts must be transferred to the U.S. Treasury when collected.

F. Funds with the Treasury and Cash

NRC cash receipts and disbursements are processed by the U.S. Treasury. The Funds with the U.S. Treasury and Cash are primarily appropriated funds that are available to pay current liabilities and to finance authorized purchase commitments. Cash balances held outside the U.S. Treasury are not material.

G. Accounts Receivable, Net of Allowance

The amounts due for receivables are stated net of an allowance for uncollectible accounts. The estimate of the allowance is based on an analysis of the outstanding balances and the application of estimated uncollectible percentages to categories of aged receivable balances.

H. Advances

NRC makes cash payments to other Federal agencies, employees, grantees, and contractors to provide for future NRC program expenditures. These advance payments are recorded as assets which are reduced when reports of expenditures are received by NRC or when accruals of cost estimates are made by NRC.

I. Property and Equipment

The land and buildings in which NRC operates are provided by the GSA, which charges NRC rent that approximates the commercial rental rates for similar properties.

Property with a cost of \$50,000 or more per unit and a useful life of two years or more are capitalized at cost and depreciated. Other property items are expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

At the beginning of Fiscal Year 1995, NRC increased the dollar value threshold of capitalized property from \$5,000 to \$50,000. Items acquired costing less than \$50,000 are

(continued on page 34)

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

expensed in the year of purchase. All items of property capitalized in previous years (\$5,000 to \$49,999.99) will continue to be depreciated over the remaining lives.

Property is depreciated using the straight-line method over useful lives which range from 5 to 8 years.

J. *Prepaid and Deferred Charges*

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and are recognized as expenditures/expenses when the related goods and services are received.

K. *Liabilities*

Liabilities represent the amount of monies or other resources that are likely to be paid by NRC as the result of a transaction or event that has already occurred. However, no liability can be paid by NRC absent an appropriation. Liabilities for which an appropriation has not been enacted and for which there is no certainty that an appropriation will be enacted are classified as Liabilities not Covered by Budgetary Resources. Also, liabilities of NRC arising from sources other than contracts can be abrogated by the Government acting in its sovereign capacity.

L. *Contingencies*

NRC is a party to various administrative proceedings, legal actions, environmental suits, and claims brought by or against it. Based on the advice of legal counsel concerning contingencies, it is the opinion of NRC management that the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the financial position or results of operations of NRC.

M. *Annual, Sick, and Other Leave*

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future appropriations and assessments.

Sick leave and other types of nonvested leave are expensed as taken.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

N. *Retirement Plans*

NRC employees hired after December 31, 1983 are automatically covered by the Federal Employees' Retirement System (FERS), which was implemented on January 1, 1987. Employees hired prior to that date could elect to join FERS or to remain in the Civil Service Retirement System (CSRS). Approximately 60 percent of NRC employees belong to CSRS and 40 percent belong to FERS. For employees in FERS, NRC withholds .80 percent of base pay earnings in addition to Federal Insurance Contribution Act (FICA) and matches the withholding with a 11.4 percent contribution. The sum is transferred to the Federal Employees Retirement Fund. For employees covered by CSRS, NRC withholds 7.00 percent of their base pay earnings. This withholding is matched by NRC and the sum of the withholding and the match is transferred to the CSRS.

On April 1, 1987, the Federal Government initiated the Thrift Savings Plan (TSP) which is a retirement savings and investment plan for employees covered by either FERS or CSRS. For employees covered by FERS, NRC automatically contributes 1 percent of base pay to their account and matches contributions up to an additional 4 percent. The maximum percentage that an employee participating in FERS may contribute is 10 percent of base pay. Employees covered by CSRS may contribute up to 5 percent of their base pay, but there is no NRC matching of the contribution. The maximum amount that either FERS or CSRS employees may contribute to the plan in a calendar year is \$9,240. The sum of the employee and NRC contributions is transferred to the Federal Retirement Thrift Investment Board.

NRC does not report on its financial statements FERS and CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management.

O. *Net Position*

NRC's net position comprises the following components:

1. Unexpended appropriations include the undelivered orders and unobligated balances of NRC's funds. All appropriations remain available for obligation until expended.
2. Invested capital represents U.S. Government resources invested in NRC's property and equipment and inventory not held for sale. Increases to invested capital are

(continued on page 36)

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

recorded when assets are acquired with direct appropriations, and decreases are recorded as a result of the depreciation, disposition of capital assets, or consumption of inventory.

3. Future funding requirements represent (a) accumulated annual leave earned but not taken as of the financial statement date and (b) accrued Workers' Compensation. The expense for these accruals is not funded from current appropriations, but rather will be funded from future appropriations and assessments.

P. Department of Energy (DOE) Charges

Financial transactions between the DOE and NRC are fully automated through the U.S. Treasury's On-Line Payment and Collection (OPAC) System. The OPAC System allows the DOE to collect amounts due from NRC directly from NRC's account at Treasury for goods and/or services rendered. Project manager verification of goods and/or services received is subsequently accomplished through system generated voucher approval system. The vouchers are returned to the Division of Accounting and Finance documenting that the charges have been accepted. Annually, NRC makes approximately \$110 million in payments to the DOE in this manner for research conducted by the DOE National Laboratories.

Q. Reclassifications

Certain amounts for 1994 have been reclassified to conform with the 1995 presentation.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

NOTE 2. FUND BALANCES WITH TREASURY

Fund balances with Treasury consist of the following amounts as of September 30, 1995 and 1994:

	<u>1995</u>	<u>1994</u>
Appropriated funds:		
Obligated	\$195,094,034	\$195,056,128
Unobligated	<u>54,738,792</u>	<u>54,238,253</u>
	249,832,826	249,294,381
Other fund types	<u>8,769,560</u>	<u>12,897,866</u>
	<u><u>\$258,602,386</u></u>	<u><u>\$262,192,247</u></u>

U.S. Government cash is handled on an overall consolidated basis by Treasury. "Funds with Treasury" represents NRC's right to draw on Treasury for allowable expenditures. All amounts are available to NRC for current use except for \$5.6 million related to fees collected which are held to offset subsequent years' appropriations. The obligated and unobligated balances exclude amounts related to unfilled customers orders.

NOTE 3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net is composed of the following amounts as of September 30, 1995 and 1994:

Entity Assets

Intragovernmental accounts receivable consists primarily of receivables and reimbursements due from other Federal agencies (\$8,231,231 and \$5,802,642 at September 30, 1995 and 1994, respectively).

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NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

Governmental accounts receivable is comprised of the following amounts as of September 30, 1995 and 1994:

	<u>1995</u>	<u>1994</u>
Governmental:		
Materials and facilities fees - billed	\$ 6,982,690	\$17,689,190
Materials and facilities fees - unbilled	24,388,455	46,535,157
Other	<u>132,035</u>	<u>194,504</u>
 Total accounts receivable	 31,503,180	 64,418,851
 Less: Allowance for uncollectible accounts	 <u>(3,192,845)</u>	 <u>(5,282,378)</u>
 Accounts receivable, net	 <u><u>\$28,310,335</u></u>	 <u><u>\$59,136,473</u></u>

Governmental accounts receivable represents primarily amounts due for fees assessed for licensing and inspections of nuclear facilities and radioactive materials and other services. In the year collected, the amounts will be used to offset NRC's appropriations.

Non-Entity Assets

Governmental accounts receivable, net represents miscellaneous amounts due from the public (\$692,881 and \$856,102 at September 30, 1995 and 1994, respectively), which when collected, must be transferred to the U.S. Treasury.

NRC's methodology to estimate the allowance for uncollectible accounts is based on an analysis of the outstanding balances and the application of estimated uncollectible percentages to categories of aged receivable balances.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

NOTE 4. ADVANCES AND PREPAYMENTS

Advances and prepayment as of September 30, 1995 and 1994, consists primarily of the following:

	<u>1995</u>	<u>1994</u>
Entity Assets		
Intragovernmental:		
Advances - other Federal agencies	<u>\$2,466,180</u>	<u>\$2,672,160</u>
Governmental:		
Travel advances	695,961	\$ 852,933
Advances - other	<u>-</u>	<u>7,193</u>
	<u>\$ 695,961</u>	<u>\$ 860,126</u>

Advances and prepayments are recorded as assets until receipt of the goods or services involved or until contract terms are met. When goods or services are received or contract terms are met, the advance or prepayment is reduced and the expense or acquired asset is recognized. There were no outstanding prepayments as of September 30, 1995 and 1994.

NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following as of September 30, 1995 and 1994:

	<u>Service</u>	<u>Acquisition</u>	<u>Accumulated</u>	<u>1995</u>	<u>1994</u>
<u>Fixed Assets Class</u>	<u>Years</u>	<u>Value</u>	<u>Depreciation</u>	<u>Net Book</u>	<u>Net Book</u>
				<u>Value</u>	<u>Value</u>
Equipment	5-8	\$28,481,712	\$18,523,429	\$ 9,958,283	\$13,080,567
ADP software	5	44,845,297	36,779,914	8,065,383	11,386,812
Leasehold improvements	5-20	17,288,105	1,768,704	15,519,401	14,405,994
ADP software under development		<u>3,632,345</u>	<u>-</u>	<u>3,632,345</u>	<u>1,614,004</u>
Total		<u>\$94,247,459</u>	<u>\$57,072,047</u>	<u>\$37,175,412</u>	<u>\$40,487,377</u>

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NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

The straight-line depreciation method is used for all classes of fixed assets. Depreciation expense for Fiscal Years 1995 and 1994 was \$9,129,575 and \$16,541,573, respectively.

In 1994, the NRC revised the useful life of the majority of its equipment to better reflect NRC's experience which has shown that the majority of equipment had a useful life of five to eight years. As a result of revising the service lives and salvage values of its equipment, the NRC recalculated the depreciation on its equipment, resulting in \$4.95 million of additional depreciation expense in 1994. Had the NRC not revised the useful lives of its equipment, the total depreciation expense in 1994 would have been approximately \$11.59 million. The remaining book value of the equipment was depreciated over the remaining service lives of the equipment. The additional depreciation is approximately \$1.65 million in Fiscal Year 1995 and will be \$1.25 million in Fiscal Year 1996, \$.75 million in Fiscal Year 1997 and \$.42 million in Fiscal Year 1998.

In 1995, NRC increased the capitalization dollar amount on property and equipment from \$5,000 to \$50,000. All property items previously capitalized (\$5,000 to \$49,999.99) will continue to be depreciated over the remaining useful lives.

The land and buildings occupied by NRC are provided by the GSA. For Fiscal Years 1995 and 1994, the GSA charged NRC \$18,580,348 and \$18,594,586, respectively, for the use of these facilities based on a rental fee which is to approximate the commercial rates for similar properties.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

NOTE 6. ACCOUNTS PAYABLE AND ADVANCES

Accounts payable and advances consists of the following as of September 30, 1995 and 1994:

	<u>1995</u>	<u>1994</u>
Intragovernmental:		
Accounts payable		
Department of Energy	\$ 9,826,949	\$ 8,072,650
Other Federal agencies	<u>2,994,531</u>	<u>6,174,148</u>
	<u>12,821,480</u>	<u>14,246,798</u>
Advances	<u>167,982</u>	<u>389,222</u>
	<u>\$12,989,462</u>	<u>\$14,636,020</u>
Governmental:		
Account payable		
Vendor payables	\$20,855,270	\$24,100,634
Contract holdbacks	<u>1,660,051</u>	<u>1,412,978</u>
	<u>\$22,515,321</u>	<u>\$25,513,612</u>

The account payables are all current. Current account payables represent amounts which are expected to be paid within the fiscal year following the reporting date.

NOTE 7. ACCRUED PAYROLL AND BENEFITS

Accrued payroll and benefits as of September 30, 1995 and 1994 consists of:

	<u>1995</u>	<u>1994</u>
Accrued personnel services	\$ 8,699,085	\$8,200,211
Accrued benefits	<u>1,577,822</u>	<u>1,483,388</u>
	<u>\$10,276,907</u>	<u>\$9,683,599</u>

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NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

Accrued payroll and benefits represent wages and benefits which have been earned but not paid as of the financial statement date.

NOTE 8. OTHER LIABILITIES COVERED BY BUDGETARY RESOURCES

Other liabilities as of September 30, 1995 and 1994 include:

	<u>1995</u>	<u>1994</u>
Governmental:		
Liability for deposit funds	\$1,550,759	\$ 3,151,105
Advances from others	<u>6,773,342</u>	<u>9,747,253</u>
	<u>\$8,324,101</u>	<u>\$12,898,358</u>

The liability for deposit funds consists primarily of liabilities arising from payroll deductions and tax withholdings. Advances from others consists of funds primarily from foreign governments for the participation in cooperative research programs.

	<u>1995</u>	<u>1994</u>
Intragovernmental:		
Liability to offset net accounts receivable for fees assessed	\$35,204,023	\$63,855,619
Liability related to fees collected which will offset subsequent years' appropriations	5,635,943	
Liability to offset net miscellaneous accounts receivable	<u>692,881</u>	<u>856,102</u>
	<u>\$41,532,847</u>	<u>\$64,711,721</u>

The liability to offset the net accounts receivable for fees assessed represents amounts which, when collected, will be transferred to the U.S. Treasury to offset NRC's appropriations in the year collected.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

The liability related to fees collected which will be used to offset subsequent years' appropriation represents amounts which will be transferred to the U.S. Treasury to offset subsequent years' appropriation.

The liability to offset net miscellaneous accounts receivable represents amounts which will be reverted to the U.S. Treasury when collected.

All Other Liabilities except Advances from others are current. Current liabilities represent amounts which are expected to be paid within the fiscal year following the reporting date. Advances from others may not be liquidated in the fiscal year following the reporting date.

NOTE 9. OTHER LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Unfunded liabilities as of September 30, 1995 and 1994 include:

	<u>1995</u>	<u>1994</u>
Governmental:		
Accrued annual leave	\$24,563,784	\$24,423,350
Accrued Workers' Compensation	<u>1,261,674</u>	<u>1,230,130</u>
	<u>\$25,825,458</u>	<u>\$25,653,480</u>

Accrued annual leave represents the amount of annual leave earned by NRC employees but not yet taken. Accrued Workers' Compensation represents Federal Employees Compensation Act (FECA) benefits paid by the Department of Labor on NRC's behalf which had not been billed to or paid by NRC as of September 30, 1995 and 1994. The actuarial amounts for future disability benefits are not included in the principal statements.

Accrued annual leave and accrued Workers' Compensation are not funded by current or prior years' appropriations and assessments. Funding will be provided from future years' appropriations and assessments (see Note 11).

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NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

NOTE 10. INTRAGOVERNMENTAL ACTIVITIES

The NRC reporting entity's financial activities interact with and are dependent upon those of the Federal Government as a whole. Other Federal agencies make financial decisions and report certain financial matters on behalf of all Federal agencies. The practice of having Federal agencies record or report only those government-wide financial matters for which they are directly responsible is consistent with generally accepted accounting principles for Federal agencies which seek to identify financial matters to the department or agency that has been granted budget authority and resources to manage them. Activities which are performed or reported by other Federal agencies in which NRC is indirectly involved are as follows:

- NRC funds a portion of its employee pension benefits under the CSRS and the FERS but does not disclose actuarial data with respect to accumulated plan benefits, plan assets, or the unfunded pension liability relative to its employees. Reporting of these amounts is the responsibility of the Office of Personnel Management.

In addition, NRC makes contributions to the TSP on behalf of its employees. NRC does not have control over the plan's assets. The TSP is administered by the National Finance Center of the Department of Agriculture.

- Certain legal matters to which NRC may be a named party are administered, and in some cases, litigated by other Federal agencies. Amounts paid under any decision, settlement, or award pertaining thereto are generally funded through the Treasury.

In most cases, claims (including personal injury claims) are administered and resolved by the Department of Justice and any amounts necessary for resolution are obtained from a special fund maintained by the Treasury. Any legal actions for Workers' Compensation claims brought by NRC employees fall under FECA, which is administered by the Employment Standards Administration of the U.S. Department of Labor. The cost of administering, litigating, and settling these legal matters has not been allocated to individual Federal agencies.

- Interest on borrowings of the U.S. Treasury is not included as a cost to NRC's programs and is not included in the accompanying financial statements.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

NOTE 11. NET POSITION

The net position consists of the following as of September 30, 1995 and 1994:

	<u>1995</u>	<u>1994</u>
Unexpended appropriations:		
Unobligated	\$ 62,857,857	\$ 56,926,694
Undelivered orders	<u>140,502,479</u>	<u>147,149,746</u>
	203,360,336	204,076,440
Invested capital	37,175,412	41,117,894
Future funding requirements (Note 9)	<u>(25,825,458)</u>	<u>(25,653,480)</u>
	<u><u>\$214,710,290</u></u>	<u><u>\$219,540,854</u></u>

Unexpended appropriations include (1) unobligated appropriation balances and (2) undelivered orders, which are amounts which have been obligated but not yet expended. The unobligated appropriations balance does not include \$8,911,666 and \$7,929,695 in unfilled customer orders - unobligated as of September 30, 1995 and 1994, respectively. The undelivered orders balance does not include \$8,119,066 and \$2,688,440 in unfilled customer orders - obligated as of September 30, 1995 and 1994, respectively.

Invested capital represents the net investment of the U.S. Government appropriations expended for NRC's capitalized property and equipment.

Future funding requirements represent the amount of future funding needed to pay the accrued unfunded expenses as of September 30, 1995 and 1994. These accruals are not funded from current or prior appropriations and assessments, but rather should be funded from future appropriations and assessments. Accordingly, future funding requirements have been recognized for these expenses that will be paid from future appropriations (See Note 9).

NOTE 12. APPROPRIATED CAPITAL USED

Appropriated capital used, a financing source, is recognized to the extent that appropriated funds have been consumed less the amount collected from fees assessed for licensing, inspections, and other services. During Fiscal Years 1995 and 1994, \$509.1 million and \$499.6 million, respectively, were collected from fees assessed for licensing, inspections and other services.

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NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

OBRA requires NRC to recover approximately 100 percent of its new budget authority, less the amount appropriated from the Nuclear Waste Fund, by assessing fees. At the end of the fiscal year, appropriations recognized are reduced by the amount of assessed fees collected during the fiscal year to the extent of new budget authority for the year. Collections which exceed the new budget authority are held to offset subsequent years appropriations.

For Fiscal Years 1995 and 1994, \$501.9 and \$499.6 respectively, of collections were used to reduce the fiscal year's appropriations recognized:

	<u>1995</u>	<u>1994</u>
Appropriated funds consumed	\$ 537,429,585	\$ 547,804,143
Less: Collection from fees assessed	<u>(501,871,000)</u>	<u>(499,575,640)</u>
	<u><u>\$ 35,558,585</u></u>	<u><u>\$ 48,228,503</u></u>

NOTE 13. OTHER REVENUES AND FINANCING SOURCES

Other revenues and financing sources for September 30, 1995 and 1994 were:

	<u>1995</u>	<u>1994</u>
Fees for licensing, inspection and other services	\$478,855,346	\$494,600,470
Other miscellaneous receipts	3,518,733	5,316,616
Appropriation reimbursements	<u>10,409,373</u>	<u>2,660,362</u>
	<u><u>\$492,783,452</u></u>	<u><u>\$502,577,448</u></u>

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

NOTE 14. OPERATING EXPENSES

Operating expenses by object class are as follows:

	<u>1995</u>	<u>1994</u>
Personnel services and benefits	\$263,691,136	\$260,529,990
Travel and transportation	16,139,326	17,472,506
Rent, communication and utilities	25,581,602	23,082,990
Printing and reproduction	2,005,287	1,903,611
Contractual services	216,219,114	214,987,115
Supplies and materials	13,353,246	13,115,150
Grants, subsidies and contributions	1,456,333	1,110,957
Insurance claims and indemnities	131,477	40,416
Other	<u>3,653</u>	<u>2,790</u>
Total	<u><u>\$538,581,174</u></u>	<u><u>\$532,245,525</u></u>

NOTE 15. EMPLOYEE RETIREMENT PLANS

Total NRC contributions for employee retirement plans for Fiscal Years 1995 and 1994 were as follows:

	<u>1995</u>	<u>1994</u>
Civil Service Retirement System (CSRS)	\$ 9,226,610	\$ 9,410,751
Federal Employees' Retirement System (FERS)	9,115,078	9,844,803
Federal Insurance Contribution Act (FICA)	5,923,317	5,753,528
Thrift Savings Plan (TSP)	<u>3,580,292</u>	<u>3,361,939</u>
	<u><u>\$27,845,297</u></u>	<u><u>\$28,371,021</u></u>

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NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

Data on the actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are maintained by other Federal agencies and are not allocated to individual departments and agencies.

NOTE 16. OTHER EXPENSES

Other expenses as of September 30, 1995 and 1994 consist of:

	<u>1995</u>	<u>1994</u>
Loss on disposal of property	\$281,951	\$1,679,729
Bad Debt Expense	<u>5,094</u>	<u>-</u>
	<u>\$287,045</u>	<u>\$1,679,729</u>

**NOTE 17. SHORTAGE OF REVENUES AND FINANCING SOURCES OVER
TOTAL EXPENSE**

The shortage of revenues and financing sources over total expenses represents expenses not covered by budgetary resources for the years ended September 30, 1995 and 1994, and consists of:

	<u>1995</u>	<u>1994</u>
Accrued annual leave	\$140,435	\$(66,910)
Accrued Workers' Compensation	<u>31,544</u>	<u>87,689</u>
	<u>\$171,979</u>	<u>\$ 20,779</u>

Expenses not covered by Budgetary Resources are not funded from current appropriations but are to be funded from future appropriations and assessments.

NOTES TO PRINCIPAL STATEMENTS
September 30, 1995 and 1994

NOTE 18. NON-OPERATING CHANGES

Non-operating changes for the fiscal years ended September 30, 1995 and 1994 consist of the following:

	<u>1995</u>	<u>1994</u>
Change in unexpended appropriations	\$ (716,103)	\$(8,059,480)
Change in invested capital	<u>(3,942,482)</u>	<u>5,167,638</u>
	<u><u>\$(4,658,585)</u></u>	<u><u>\$(2,891,842)</u></u>

INSPECTOR GENERAL'S OPINION ON MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROLS

OIG evaluated management's assertion about the effectiveness of its internal controls designed to (1) safeguard assets against loss from unauthorized acquisition, use or disposition, (2) assure the execution of transactions in accordance with laws governing the use of budget authority and with other laws and regulations that have a direct and material effect on the Principal Statement or that are listed in OMB audit guidance and could have a material effect on the Principal Statements, and (3) properly record, process, and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

In planning and performing our audit of the principal financial statements of NRC for the year ended September 30, 1995, OIG assessed the agency's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the principal statements and to determine whether the internal control structure meets the objectives stated above. This work included obtaining an understanding of the internal control policies and procedures and assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances. Additionally, OIG performed sufficient tests to provide reasonable assurance that significant control policies and procedures, as implemented, were effective and working as designed.

For the purpose of this report, OIG classified NRC's significant internal control structure cycles in the following categories:

- Funds with U.S. Treasury
- Payroll
- Property
- Fee Revenue
- Travel
- Commercial Payments - Non-Department of Energy
- Commercial Payments - Department of Energy
- Budget

For all the internal control cycles listed above, OIG obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk. OIG considered NRC's Federal Managers' Financial Integrity Act (FMFIA) reports, as well as the Office of the Inspector General's (OIG) reports on financial matters and internal accounting control policies and procedures, in making our risk assessment.

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OIG noted certain matters involving the internal control structure and its operation that we considered reportable conditions under standards established by the American Institute of Certified Public Accountants and Office of Management and Budget (OMB) Bulletin 93-06. Although not material in relation to the Principal Statements, these reportable conditions involve deficiencies in the internal control structure that, in our judgment, could adversely affect the entity's ability to ensure the objectives of internal controls are met.

In our opinion, NRC management fairly stated that those controls, in place on September 30, 1995, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the Principal Statements would be prevented or detected on a timely basis. Management made this assertion based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and the OMB Circular A-123, *Internal Control Systems*.

Reportable Conditions

The matters listed below involve the design or operation of the internal control structure and warrant disclosure as reportable conditions in this report. The first issue listed is new, but is similar to a FY 1994 condition. The remaining reportable conditions are carryovers from FY 1994.

- Fee Recovery System Lacks Internal Controls
- Lack of DOE Audit Assurance
- Payroll System Must Be Integrated With The General Ledger and Possess Labor Distribution Capabilities¹

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that could be considered to be material weaknesses.

In our opinion, none of the reportable conditions noted are classifiable as material weaknesses. The reportable conditions noted are detailed in the Reportable Conditions and Recommendations section immediately following this report.

This report is intended solely for the use of NRC management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

¹ This reportable condition combines two issues previously reported separately, those being *General Accounting Controls at the General Ledger Level Not Maintained* and *Accounting System Does Not Provide Object Class and Program Information*.

REPORTABLE CONDITIONS AND RECOMMENDATIONS CURRENT YEAR

1. FEE RECOVERY SYSTEM LACKS INTERNAL CONTROL

The internal control review of the license fee and debt collection process disclosed a lack of controls for billing inspection costs (Part 170 fees) to licensees. This issue is similar to the reportable condition involving the Technical Assistance Program Support System in the FY 1994 report on internal control, and represents the need for additional management attention to this area.

10 CFR Part 170 fees consist of license and inspection fees, established under the authority of the Independent Offices Appropriation Act (IOAA) (31 U.S.C. 9701), to recover the NRC's costs of providing individually identifiable services to specific applicants and licensees. NRC's fees for these services are assessed generally for the review of new licenses applicants, amendments to or renewal of licenses, and inspection of licensed activities.

During our audit we noted that hours associated with two types of completed inspections were not billed to the licensees that received the services. One type included inspection reports that had been closed and data entered into the Inspection Report Tracking System (IRTS) after the end of the billing cycle. The other type involved inspection reports where the completion date was not entered into the IRTS system. In both cases, fees associated with the completed inspections were not billed.

While we were pursuing billing issues and the reliability of billing data, the Office of the Controller (OC) assessed the scope and magnitude of this issue and developed a five-part corrective action plan. The plan, however, generally focuses on screening data after it has been processed and does not appear to address (1) why completion dates were not entered, or (2) why the system did not process reports entered after the close of the billing cycle. To provide complete corrective action, we believe these root causes must be determined and addressed.

The Office of the Controller estimates between \$4-6 million in unbilled inspections occurred during the FY 1991 - 1995 period, and believes that about \$1.6 million is attributable to FY 1995. Until OC completes its review, we have deferred further audit effort on this internal control weakness.

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Recommendations

We believe that normally it is more efficient and possibly more effective to prevent a problem from occurring, than putting in place actions to address the effects of the problem. Therefore, if OC's planned actions do not address the root cause, we recommend that the Chief Financial Officer should direct OC to:

1. Expand the plan to identify the root cause for the billing deficiencies, and take additional action as needed.

2. LACK OF DOE AUDIT ASSURANCE

This reportable condition is a carryover from the FY 1994 audit of NRC's principal statements, and concerns the lack of audit assurance for interagency reimbursable work performed by the DOE national laboratories. Approximately 20 percent of NRC's annual budget is expended for work at these laboratories. Prior to FY 1994, this condition was reported as a scope restriction on NRC's principal statements for FY 1992 and 1993. As a result of actions taken by the NRC and the GAO, the issue was downgraded to a reportable condition for FY 1994. In its FY 1994 report, the independent auditor recommended NRC actions to remedy this issue. During FY 1995 and continuing to date, NRC aggressively pursued a solution to this issue. In particular, NRC has explored several alternatives, including a revision to its Memorandum of Understanding with DOE to provide needed information. Although a satisfactory solution has not yet been achieved, we commend NRC for its continuing efforts to resolve this issue, and we will work with the Agency in this effort.

Recommendation

None.

3. PAYROLL SYSTEM MUST BE INTEGRATED WITH THE GENERAL LEDGER AND POSSESS LABOR DISTRIBUTION CAPABILITIES

This issue is a carryover from the FY 1994 audit, and combines two issues previously reported separately, those being *General Accounting Controls at the General Ledger Level Not Maintained*² and *Accounting System Does Not Provide Object Class and Program Information*³. The remaining concerns with these issues relate to the adequacy of NRC's Payroll System. We have, therefore, chosen to report the separate issues as a single payroll related issue.

NRC's accounting system does not include all of the necessary general accounting controls to produce timely and accurate financial information needed to prepare complete financial reports as required by OMB Bulletin 94-01. The principal weaknesses and issues that remain are:

- the compatibility and integration of the NRC general ledger and subsystems used by NRC for payroll.
- heavy reliance on manual inputs due to the use of incompatible subsystems.

NRC is in the process of replacing its payroll system with a new subsystem that is integrated into the Federal Financial System (FFS) and will eventually provide labor distribution information. When the new payroll system is fully implemented, individual payroll transactions will be generated for FFS update within the program receiving the direct benefit of the expenditure. NRC continues to reconcile the non-compatible payroll subsystem with the FFS general ledger on a monthly and year end basis.

Recommendation

None, as NRC is in the process of replacing its payroll system.

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²This issue previously included payroll, travel and property. The travel issue was closed last year and the property issue was closed this year.

³This issue was partially resolved when NRC installed the Federal Financial System general ledger system. However, to fully resolve the issue, the payroll system must possess labor distribution capabilities.

REPORTABLE CONDITIONS CLOSED FROM PREVIOUS YEAR

1. BILLING PRACTICES NEED IMPROVEMENT

Based on the corrective actions taken by NRC in FY 1995, we are satisfied billing and collections for 10 CFR Part 170 are now made timely. Therefore, this reportable condition is closed. As stated in our current year reportable condition, *Fee Recovery System Lacks Internal Control*, we have new concerns about the reliability of the 10 CFR Part 170 data.

2. PROPERTY SYTEM SHOULD BE FORMALIZED

As stated in Note 5 to the Principal Statements, NRC increased the capitalization dollar amount on property and equipment from \$5,000 to \$50,000. All property previously capitalized (\$5,000 to \$49,999) will continue to be depreciated over the remaining useful lives. NRC estimates that the effect of this change significantly decreases the number of items capitalized and depreciated. In FY 1995, only 11 capital equipment items were added to the existing inventory.

NRC has also implemented control procedures to ensure that capitalized property is recorded in the general ledger on a monthly basis. Based on the actions taken by NRC in FY 1995, we are satisfied adequate corrective action has been taken. Therefore, this reportable condition is closed.

INSPECTOR GENERAL'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The Office of the Inspector General (OIG) has audited the Principal Financial Statements of the U.S. Nuclear Regulatory Commission (NRC), as of and for the year ended September 30, 1995, and issued our report thereon dated March 1, 1996. As part of our audit, we tested the NRC's compliance with certain laws and regulations that, if not followed, could have a direct and material effect on the financial statements. This report pertains only to our consideration of compliance with laws and regulations for the year ended September 30, 1995. The financial statements of the U.S. Nuclear Regulatory Commission as of September 30, 1994, were audited by other auditors, whose report dated March 10, 1995, expressed an unqualified opinion on those statements.

OIG conducted its audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the principal financial statements are free of material misstatements.

Scope Restriction

NRC's principal financial statements for the fiscal year ended September 30, 1995, includes about \$110 million of reimbursable expenses incurred by the Department of Energy (DOE), which represents approximately 20 percent of the agency's total expenses. The funds were transferred under the provisions of the Energy Reorganization Act (P.L. 95-91) which are embodied in a Memorandum of Understanding (MOU) between NRC and DOE dated February 24, 1978. The MOU establishes guidelines for the program planning, implementation, control, funding, and management of NRC funds. The responsibility to design, implement, and evaluate the system of controls to assure compliance with laws and regulations rests with the Department of Energy.

OIG's assessment of compliance with laws and regulations which could have a material and direct effect on the NRC financial statements did not provide for a review of DOE's extent of compliance with laws and regulations for the NRC funds they expended. Our assessment of compliance with laws and regulations over the funds transferred to DOE was limited to testing the controls maintained at NRC over the disbursing and recording of these funds.

Compliance with laws and regulations applicable to NRC is the responsibility of agency management. As part of obtaining reasonable assurance as to whether the principal financial statements are free of material misstatement, we tested NRC's compliance with laws and regulations that may

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directly affect the financial statements and certain other laws and regulations designated by OMB as listed below. However, our primary objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

- Anti-Deficiency Act (Title 31 U.S.C.),
- National Defense Appropriations Act (PL 101-510),
- Omnibus Budget Reconciliation Act of 1990
- Debt Collection Act of 1982 (PL 97-365),
- Prompt Pay Act (PL 97-177),
- Civil Service Retirement Act,
- Civil Service Reform Act (PL 95-454),
- Federal Managers' Financial Integrity Act (PL 97-255),
- Chief Financial Officers' Act (PL 101-576), and
- Budget and Accounting Act.

As part of our audit, we reviewed management's reporting of internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA) and compared the agency's most recent FMFIA reports with the evaluations we conducted of NRC's internal control system.

The results of our tests indicate that with respect to the items tested, NRC complied in all material respects with the provisions referred to above. With respect to the items not tested, nothing came to our attention that caused us to believe that NRC had not complied, in all material respects, with those provisions.

This report is intended solely for the use of management of the U.S. Nuclear Regulatory Commission. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

COMPLIANCE FINDING

NRC's lack of effective internal controls over the billing of fee recoverable activities results in non-compliance with 10 CFR Part 170.

10 CFR Part 170, under the authority of the Independent Offices Appropriation Act (IOAA) (31 U.S.C. 9701), requires NRC to assess fees to recover the NRC's costs of providing individually identifiable services to specific applicants and licensees. The services provided by the NRC for which these fees are assessed include the review of new licensee applicants or approvals, amendments to or renewal of licenses or approvals, and inspection of licensed activities.

The License Fee and Accounts Receivable Branch (LFARB) is responsible for billing and collecting Part 170 and 171 fees. LFARB prepares invoices for licensees from data received from the regions, the Office of Nuclear Reactor Regulation (NRR) and the Office of Nuclear Materials Safety and Safeguards (NMSS). LFARB relies on regional, NRR and NMSS controls to prepare complete and reliable billings.

As stated in our report on NRC's internal control structure, we noted that hours associated with certain classes of completed inspections were not billed to the licensees that received the services. As a result, the Part 170 fees reported to LFARB were incomplete and understated, and the unrecorded fee recoverable costs were inappropriately included in Part 171 reactor annual fees that are allocated to all licensees. For example, any facility fees that are not identifiable to a specific licensee are considered "generic" and are divided equally among all licensees without regard to the benefit gained by each licensee. The Part 171 reactor annual fees represent approximately 86 percent of all Part 171 fees.

The Office of the Controller (OC) identified about 30,000 unbilled hours for inspection data entered after the end of the billing cycle, and about 26,000 hours that may have been associated with completed inspection reports. These two situations resulted in about 56,000 inspection hours that may have not been billed to the licensees that received the services.

OC estimates a total of \$4-6 million in unbilled inspections over the five year period, and believes that about \$1.6 million is attributable to FY 1995. Its work on this issue is continuing and they plan to take corrective actions as stated in our report on NRC's internal control structure.

NRC's lack of controls results in a non-compliance with 10 CFR Part 170. Part 170 fees are inappropriately billed and allocated among all reactor licensees instead of being charged to the specific licensee receiving the services.

Recommendation

None. As stated in our report on Management's Assertion About the Effectiveness of Internal Controls, NRC is aggressively pursuing resolution of this issue.

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COMPLIANCE FINDING CLOSED FROM PREVIOUS YEAR

The 1994 compliance finding concerned controls to ensure that NRR's Technical Assistance Program Support System (TAPPS) reported all Part 170 fee recoverable costs to the LFARB. Such controls were determined to be inadequate and resulted in all reactor licensees sharing in fees that should have been charged to specific licensees. This situation was similar to the current year's compliance finding.

We reviewed the corrective actions taken to address this deficiency, and are satisfied that the additional controls established should provide an effective remedy. Therefore, this compliance finding is closed.



**UNITED STATES
NUCLEAR REGULATORY COMMISSION**
WASHINGTON, DC 20555-0001

February 23, 1996

MEMORANDUM TO: Leo J. Norton
 Acting Inspector General

FROM: James M. Taylor
 Chief Financial Officer

SUBJECT: DRAFT REPORTS — REPORT ON PRINCIPAL STATEMENTS,
 OPINION ON MANAGEMENT’S ASSERTION ABOUT THE
 EFFECTIVENESS OF INTERNAL CONTROLS, AND COMPLI-
 ANCE WITH LAWS AND REGULATIONS – FISCAL YEAR
 1995 FINANCIAL STATEMENT AUDIT

We appreciate the opportunity to respond to the draft audit of the financial statement and are providing comments to the recommendation.

I am pleased that again this year we received an unqualified opinion, with no material weaknesses. It was also gratifying that the number of reportable conditions were reduced from 6 to 3. I appreciate your continued support of our efforts to resolve the reportable condition concerning the “Lack of DOE Audit Assurance.”

As you know, the staff has been working to resolve the reportable condition on “Fee Recovery System Lacks Internal Control” since it was first identified in the Deputy CFO’s December 20, 1995, reasonable assurance letter. I agree with your recommendation to expand the corrective actions already underway, to include identification of the root cause for the billing deficiencies.

Contact: John Bird, OC/DAF/GAB
 415-7343 (JEBI)

Management Controls and Response to Audits

The NRC's Management Control Program

The NRC has streamlined its management control program in response to the National Performance Review and revised Office of Management and Budget (OMB) Circular No. A-123, "Management Accountability and Control," dated June 21, 1995. An Executive Committee for Management Controls, chaired by the Executive Director for Operations/Chief Financial Officer (EDO/CFO), oversees the agency's management control program. The Committee members include the Deputy Executive Directors, the Deputy Chief Financial Officer/Controller (DCFO/Controller), Directors of major program and administrative offices, and a Regional Administrator.

Under this streamlined approach, NRC senior managers use their own judgement to decide which tools to use in identifying and correcting management control weaknesses. For example, instead of implementing an agency wide mandatory risk assessment and management control review schedule, managers now evaluate their controls using various methods and sources of information such as their knowledge from day-to-day operations, program reviews and other management evaluations, and audit reports. Managers are expected to conduct formal risk assessments and management control reviews only when, in their judgement, additional information is needed to assess and report on controls. This approach allows senior managers to tailor management control programs to their operating environments.

Regional administrators and directors of offices with the highest risk with respect to programmatic and administrative activities are

asked to submit an annual management control plan to the Chairman of the Executive Committee. Placing responsibility for an annual management control plan with the senior managers who are directly responsible for management controls will help the agency integrate the requirements of the Federal Managers' Financial Integrity Act (Integrity Act) of 1982 into its day-to-day operations and will reinforce the need to establish the appropriate level of management control to achieve the performance goals mandated by the Government Performance and Results Act (GPRA) of 1993. As part of its oversight role, the Executive Committee for Management Controls may identify significant areas of concern to be addressed in the management control plans. Although management control plans are submitted only once a year, they may be modified throughout the year as needed to reflect management control concerns and activities.

In FY 1995, plans were submitted by the Directors of the Offices of Nuclear Reactor Regulation, Nuclear Material Safety and Safeguards, Nuclear Regulatory Research, Analysis and Evaluation of Operational Data, International Programs, State Programs, Enforcement, Investigations, Administration, Information Resources Management, Personnel, the Controller, and the NRC's four regional offices. The NRC's Executive Committee for Management Controls identified several priority areas for management control review involving programmatic controls, controls over the use of funds, asset management controls, and data management controls. These reviews were included in the management control plans.

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Office directors and regional administrators are required to submit an annual statement of assurance to the Chairman of the Executive Committee for Management Controls. These annual statements, which describe the basis for the level of assurance being reported, are a key element in developing the Integrity Act report. The management control plans, combined with the reasonable assurance statements, provide the framework for monitoring and improving the agency's management controls on an ongoing basis.

As a result of the NRC's streamlining, the management control paperwork and workload burden for all offices has been reduced, which is particularly beneficial for those offices with low levels of risk. Placing greater accountability and responsibility for management controls at the office level has also improved the NRC's management control program.

Additionally, in the spirit of streamlining and reducing unnecessary paperwork, the NRC has discontinued annual limited and triennial detailed reviews of its financial management systems. The agency is meeting the requirements of the Integrity Act and OMB Circulars No. A-123 and A-127, "Financial Management Systems," dated July 23, 1993, by relying on, and combining, other reviews of the financial management systems and supplementing these reviews with additional evaluation as needed to provide an annual assurance statement and develop adequate financial system plans. Under this revised approach, the DCFO/Controller determines each year, after considering recommendations from system managers and their supervisors, whether financial management system reviews should be performed. These recommendations are based on the OIG's annual audits of the agency's financial statements, other audits and reviews, and the system managers' knowledge from their day-to-day operation of the financial management systems.

Status of Management Controls and Report on Material Weaknesses and Non-Conformances

The NRC evaluated its management control and financial management systems for the fiscal year ending September 30, 1995, as required by the Integrity Act. This evaluation provides reasonable assurance that the objectives of the Act were achieved in FY 1995. The NRC has no material weaknesses in its programs or administrative activities and no material non-conformances with government-wide standards in its financial management systems. Additionally, the NRC has no areas that have been designated high risk by the U.S. General Accounting Office.

The NRC reported no material weaknesses in FY 1994. Two material weaknesses were reported in 1993, and five material weaknesses were reported in years prior to FY 1993. All of these material weaknesses have been corrected. No material non-conformances in financial systems have ever been reported by the NRC.

Bases for Statement of Assurance and Extent of Assessment of Agency Activities

Individual assurance statements from NRC office directors and regional administrators provided a primary basis for the Chairman's FY 1995 statement of assurance. These individual statements were based on various sources, including the managers' knowledge of day-to-day operations and existing controls, program reviews and other management evaluations, Office of the Inspector General (OIG) reports, reviews of financial management systems, risk assessments, and management control reviews.

The Reactor Program

At the end of FY 1995, five management control reviews were in progress in the Reactor Program. These included reviews of procedures

and processes in the application of inspection resources and improvement of the Inspector Followup System. In addition, the reviews included handling generic safety issues, redefining operator licensing functions, and conducting licensing action reviews.

Other activities ongoing and completed will directly or indirectly improve management controls. For example, a reevaluation of the basic missions and organizational structure of the reactor program in headquarters and the regions has streamlined this program and increased its efficiency, and further improvements are expected. Communication of current inspection program issues with inspectors and managers has been enhanced by the introduction of an electronic newsletter. Workload management and scheduling practices are undergoing review based on increased emphasis on the development of program plans, enhancement of task management, and the need to address emergent issues early. A comprehensive review of procedural office letters is being performed to achieve consistency by consolidating workload procedures into a single document.

The Nuclear Materials and Nuclear Waste Program

During FY 1995, the NRC completed a management control review of the newly created Spent Fuel Project Office (SFPO). The SFPO has developed an action plan identifying major issues and problems that have occurred in dry cask storage facilities. The plan will be a living document, updated quarterly until all of the issues are satisfactorily resolved.

During FY 1995, the NRC reviewed various issues, including the use of standard review plans for licensing, the licensing backlog, license reviewer qualifications, written procedures for inspections, inspector qualifications, training for supervisors and journeyman staff, contract issues, the status of rulemaking, and regional oversight.

Other activities that directly or indirectly affect management controls were completed or in

progress at the end of FY 1995. Integrated materials performance evaluation program reviews were conducted in two of the NRC's four regional offices (Regions III and IV). The objective of these reviews was to give NRC managers a more systematic and integrated approach to evaluating the strengths and weaknesses of the nuclear materials licensing and inspection programs. Business process reengineering of the materials licensing program is ongoing, and an analysis of the workflow for the program is being performed to determine how the NRC processes an application from receipt to issuance of the license. A major goal of this work is to streamline, automate, and avoid duplication of effort in processing materials license requests.

The Nuclear Regulatory Research Program

In FY 1995, the NRC reviewed the management controls over exploratory research and long-term contracts, as well as DOE National Laboratory projects that have been in existence for more than 5 years. A review of contracting procedures is ongoing to identify any processes that can be streamlined by eliminating or modifying burdensome procedures without an adverse effect on controls.

Other activities that were completed or in progress as of the end of FY 1995 include (1) an annual review and certification of DOE project files for completeness and proper maintenance, (2) an assessment of the peer review process for internally generated research that resulted in a revision of procedures, (3) the updating of procedures for approving DOE vouchers and closing out completed or terminated DOE projects, and (4) an ongoing revision of office procedures for contracting and project management.

Administrative Activities

Management controls in several administrative activities were reviewed. These included the NRC's change of station program, NRC's distri-

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bution of publications, physical security for automated data processing hardware and software, control of funds in the Office of Administration, and use of the BankCard program by three NRC offices. Limited assessments were performed of the 10 CFR Part 170 license fee billing system as well as of a number of areas where funds are collected by the agency or its contractors. Some of the collection areas assessed were license, inspection and annual fees, Freedom of Information Act requestor fees, criminal history program fees, information access authorization program fees, employee witness and jury duty fees, Combined Federal Campaign contributions, parking fees collected by the parking garage contractor, and NRC cafeteria receipts. An evaluation of the security posture of the agency's Local Area Network and UNIX environments is ongoing. The OIG issued several reports concerning contracting activities, the NRC's grant program, the parking management program, document processing, and the local public document room program.

Financial Management Systems

The NRC has six financial management systems: the Federal Financial System, Payroll System, Personal Property PC System, License Fee Bill Generator System, Allotment/Financial Plan System, and Budget Formulation System. The General Services Administration reviewed the Allotment/Financial Plan System to evaluate whether the NRC's certification and accreditation process complied with Federal guidelines, and the OIG reviewed the system as part of its audit of the NRC's streamlining plan.

The Federal Financial System (FFS) is a system that the NRC uses through an inter-agency agreement with the Department of the Treasury (Treasury). This system is reviewed annually by Treasury's Financial Management Service (FMS) for its client agencies that utilize the system. The results of this year's review provide reasonable assurance that FFS, as operated by FMS for NRC, conforms to the prin-

ciples, standards, and related requirements prescribed by the Comptroller General, except for the absence of adequate back-up capability in the event of a disaster at the Data Center located in Hyattsville, Maryland. This non-conformance is beyond the control of the NRC, and we understand that Treasury plans to correct this deficiency by the end of FY 1996.

The OIG performs an annual audit of the agency's financial statement. This audit includes testing of transactional data in the NRC's financial management systems and general ledger account balances. Additionally, the OIG reviews policies and procedures relevant to the internal control structure. In FY 1995, the OIG issued an unqualified audit opinion on the NRC's FY 1994 financial statement. The OIG identified six reportable conditions that related to the NRC's internal control structure, some of which were carried over from prior years' audits. These reportable conditions do not constitute material weaknesses or material non-conformances.

The Chairman's statement of assurance is further supported by the OIG's audit of the FY 1995 financial statement. As discussed earlier in this report, the OIG did not identify any material weaknesses or material non-conformances in its audit of the FY 1995 financial statement, and reportable conditions were reduced from six to three.

Management Decisions and Final Actions on OIG Audit Recommendations

The agency has established and continues to maintain an excellent record in resolving and implementing open audit recommendations presented in OIG reports. Section 5(b) of the Inspector General Act of 1978, as amended, requires the Chairman to report on management decisions and final actions taken on OIG audit recommendations. Table 1 gives the dollar value of disallowed costs determined through a contract

audit conducted by the Defense Contract Audit Agency (DCAA). "Questioned Costs" are those costs that are questioned as to whether they are allowable. "Unsupported Costs" represent costs challenged because of a lack of adequate supporting data. The agency agreed with all of the audit recommendations and is working with the con-

tractor to obtain additional information. Because of the sensitivity of contractual negotiations, details of these contract audits are not furnished as part of this report. Note that the Department of Defense also takes credit in its semiannual report for cost savings resulting from DCAA audits.

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Table 1
Management Report on Office of Inspector General Audits
With Disallowed Costs

For the Period April 1, 1995, through September 30, 1995

Category	Number of audit reports	DISALLOWED COSTS	
		Questioned costs (\$)	Unsupported costs (\$)
A. Audit reports with management decisions on which final action had not been taken at the beginning of this reporting period	1	139,794	0
B. Audit reports on which management decisions were made during this reporting period	0		
C. Audit reports on which final action was taken during this reporting period	0		
(I) Disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise	0		
(ii) Disallowed costs that were written off by management	0		
D. Audit reports on which no final action had been taken by the end of this reporting period	1	139,794*	0
* Management agrees with audit recommendations but requires additional supporting information, which has been requested from the contractor, before taking final action.			

Table 2 gives the dollar value of funds that audits showed could be put to better use. As of September 30, 1995, there were no outstanding audits recommending that funds be put to better use.

Seven reports containing eleven recommendations are more than a year old and are described in the section on the next page titled "Management Decisions Not Implemented Within One Year."

Table 2
Management Report on Office of Inspector General Audits
with Recommendations That Funds Be Put to Better Use

For the period April 1, 1995, through September 30, 1995

Category	Number of audit reports	Recommendations that funds be put to better use by management agreed to in a management decision (\$)
<hr/>		
A. Audit reports on which final action had not been taken by the beginning of this reporting period	0	0
B. Audit reports on which management decisions were made during this reporting period	0	0
C. Audit reports on which final action was taken during this reporting period	0	0
(I) Recommendations that were actually completed	0	0
(ii) Recommendations that management subsequently concluded should not or could not be implemented or completed	0	0
D. Audit reports on which no final action had been taken by the end of this reporting period	0	0

Management Decisions Not Implemented Within One Year

Management decisions were made before September 1994 for the seven OIG audit reports discussed in the following paragraphs, but as of September 30, 1995, NRC had not taken final action on the issues in these reports. The OIG did not recommend that funds be put to better use for any of these reports.

Review of NRC Management of Reporting Requirements Under 10 CFR Part 21, November 30, 1990

OIG made five recommendations concerning NRC's management of reporting requirements under 10 CFR Part 21. NRC implemented four of the five recommendations. The final item involves compliance with 10 CFR Part 21 by nonreactor licensees.

Part 21 establishes procedures and requirements to ensure that licensees notify the Commission of (i) equipment defects which could create a substantial safety hazard, or (ii) failures to comply with regulatory requirements relating to substantial safety hazards. The OIG recommended that the Commission either develop a program to implement Part 21 for nonreactor licensees or revise Part 21 to exclude nonreactor licensees from its scope if it is not applicable to them. The NRC's Office of the General Counsel subsequently determined that Part 21 requirements are applicable to NRC nonreactor licensees but not to Agreement State licensees.

NRC reminded all NRC materials licensees of the applicability of Part 21 reporting requirements on June 17, 1991, in NRC Information Notice No. 91-39: Compliance with 10 CFR Part 21, "Reporting of Defects and Noncompliance." The NRC also is considering a rulemaking to address (1) whether certain types of materials licensees can or should be exempted from the provisions of Part 21

because their operations do not have a potential to result in a significant safety hazard and (2) whether Part 21 type reporting requirements should be repromulgated under the Atomic Energy Act and then made a matter of compatibility for the Agreement States. (Regulations promulgated under the Energy Reorganization Act, as is Part 21, cannot be made matters of Agreement State compatibility; this is only possible for regulations promulgated under the Atomic Energy Act). With regard to item (1), the NRC needs to consider whether continuing to subject all NRC materials licensees to Part 21 notification requirements is cost effective or necessary for adequate protection of the public health and safety. With regard to item (2) the NRC needs to consider the aspect of consistency in reporting between NRC and Agreement State licensees.

The NRC has considered several options to address this issue and intends to finalize plans regarding the need to pursue rulemaking by April 1996. The staff has concluded that the NRC resources needed to revise Part 21, in addition to the Agreement State and licensee resources needed to implement any changes to Part 21, would outweigh the benefit of reducing the number of affected NRC materials licensees or the potential safety benefit from imposing the regulation on Agreement States. The staff, therefore, anticipates that a recommendation will be made to terminate the rulemaking.

NRC's Policies and Procedures for Deferring Materials Inspections and Verifying Licensee Assertions, October 26, 1992

In 1992, OIG investigated an allegation that an NRC regional office had conducted an inadequate inspection and mishandled an allegation concerning a materials licensee. Because of that investigation, OIG initiated a follow up audit to

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examine programmatic issues related to actions taken by regional offices. OIG concluded that NRC's policies and procedures for deferring materials inspections and verifying licensee assertions needed improvement. The report made four recommendations. All four recommendations have been addressed. The final recommendation was addressed with the approval and implementation of updated MD 8.8, "Management of Allegations." This management directive incorporates the topic of verifying licensee assertions. MD 8.8 is expected to be issued by April 1996.

Review of NRC's Implementation of the FMFIA for 1992, December 23, 1992

OIG recommended that NRC develop a quality assurance program to ensure that (1) activities specified in the FMFIA are planned and conducted continually throughout the year, (2) internal control review reports are consistent in presentation, and (3) internal control reviews are documented with sufficient evidence that reflects and captures actual work performed during the internal control review process. NRC addressed these recommendations in 1992 by implementing a quality assurance program and issuing guidance to the staff.

The OIG's fourth recommendation was to incorporate the quality control provisions contained in this guidance in NRC's management directive on management controls. Issuance of the revised management directive was delayed until the Office of Management and Budget (OMB) issued OMB Circular No. A-123, "Management Accountability and Control," on June 21, 1995. The NRC's management directive was rewritten in accordance with the revised OMB Circular and issued as interim guidance to the NRC staff on September 26, 1995. The final directive was issued in December 1995.

General Ledger Controls, March 15, 1993, and Results of the Audits of the NRC's FYs 92 and 93 Financial Statements issued June 29, 1993 and June 29, 1994, respectively

The audit of the NRC's FY 1995 financial statement incorporates the status of the open recommendations, qualifications, and non-conformances identified in the above listed audits. See the FY 1995 Audited Financial Statement.

Review of Funds Management, September 23, 1994

The OIG reviewed the agency's funds management practices and specifically examined NRC's unobligated budget carryover, advance procurement planning, allottee financial plans, and fund obligation patterns. The audit report disclosed that although NRC's funds management practices generally complied with established policies and procedures, the agency's level of carryover and unliquidated obligations had increased. The OIG offered three recommendations to improve funds management: holding allottee more accountable, expanding the use of an existing management information system, and improving the advance procurement process.

The agency Budget Execution Report (BER), which is provided to the Chief Financial Officer (CFO) monthly and to the Commission quarterly, is also distributed throughout the agency to financial and program managers. The BER has been revised to include a specific goal for months of available funding (including prior-year unliquidated obligations, current-year unliquidated obligations, and unobligated funds). The BER measures the status of the agency's six major allowance holders against this goal. This process enables agency and office managers to monitor the major allowance holder's progress towards reaching the agency's goal. In addition, financial management is one

of the elements in the annual performance evaluation for agency allowance holders.

The Office of Information Resources Management (IRM) has completed Release 1 of the Resources Information Management System (RIMS) software developed for the Office of Nuclear Regulatory Research. IRM has also distributed the software to other interested offices within the NRC. IRM continues to work

with these offices to help them establish their fiscal year 1996 baselines using the product.

The Office of Administration (ADM) has revised the format and content requirements for office advance procurement plans (APPs) to enhance procurement and financial management planning. On February 27, 1995, ADM issued the new procedures with the semiannual call for office APPs.

Supplemental Financial and Management Information

This section contains additional financial and program performance information not previously discussed.

Review of Advanced Reactor Designs

The NRC has encouraged the nuclear industry to standardize nuclear power reactor designs. Figure 11 on the next page shows the NRC's progress, as of September 30, 1995, in reviewing each accepted standard plant design application and major industry generic requirements document. This performance is measured by comparing the schedule milestones against the major staff output documents, including requests for additional information (RAIs), draft safety evaluation reports (DSERs), and final safety evaluation reports (FSERs).

When this performance measure was first instituted, the NRC had several distinct reviews ongoing that were coordinated within an integrated schedule. These reviews consumed a substantial portion of the agency's resources.

The performance measure provided a tool to assess whether progress-versus-milestones was being maintained. Since the inception of the measure, the staff has completed its action on two of the reviews, two reviews lack only final design certification, one has been withdrawn (CANDU) and one has been suspended (SBWR). Given that only one review (AP600) remains active with significant resource utilization and that overall review resources have diminished considerably, the rationale for a performance measure is no longer valid and the measure will be discontinued in FY 1996.

Transportation Incidents

Approximately 3 million packages containing radioactive materials are shipped each year, and an estimated 200,000 of these are shipped in NRC-certified packaging. Because NRC-certified packaging is designed to withstand severe accidents, the likelihood of a release occurring is minimal. This conclusion is supported by Table 3

(continued on page 74)

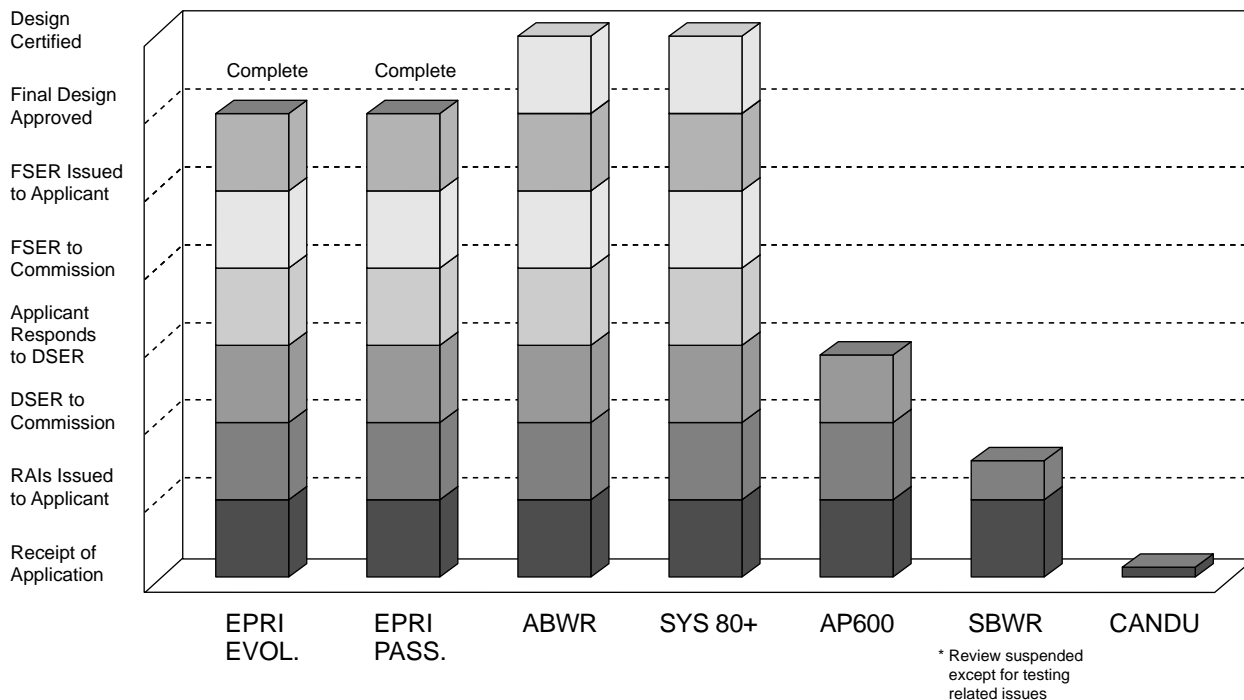
Table 3
Transportation Incidents

	FY1991	FY1992	FY1993	FY1994	FY1995*
Incidents Involving NRC-Certified Packaging**	11	8	5	4	4
Releases Involving NRC-Certified Packaging	0	0	0	0	0

* Information is through March 1995

**This chart contains revised data for FY 1991-1994. During data evaluation, it was determined that data was reported in previous years as of the calendar year. The chart reflects the correction for all fiscal years.

Figure 11
Advance Reactor Reviews



- EPRI EVOL.** - Completed the FSER on the Electric Power Research Institute (EPRI) Utility Requirements Document for evolutionary light-water reactors (LWRs) in December 1993, as scheduled.
- EPRI PASS.** - Completed the FSER on the EPRI Utility Requirements Document for passive LWRs in August 1994.
- ABWR** - Issued a proposed rule to certify the advanced boiling water reactor (ABWR) design in April 1995.
- SYS 80+** - Issued a proposed rule to certify the System 80+ design in April 1995.
- AP600** - Issued the DSER for the Westinghouse AP600 design in November 1994. The applicant is continuing to respond to open and confirmatory issues identified in the DSER, and to resolve them with the staff.
- SBWR** - In June 1994, General Electric Company requested that the NRC limit the scope of the simplified boiling water reactor (SBWR) design review to focus only on the resolution of testing and analysis issues. The staff is reviewing GE's thermal hydraulic code, TRACG (Transient Reactor Analysis Code) and the revised test and analysis program description that is intended to qualify TRACG for application to the SBWR design.
- CANDU** - In March 1995, AECL Technologies Inc. requested that the NRC discontinue work on its application for design certification for the AECL Canadian Deuterium Reactor Design (CANDU).

which shows that there have been no transportation incidents involving radioactive releases from NRC-certified packaging in the past 5 years. In fact, only one incident has been identified in the past 24 years involving a release of a radioactive source from NRC-certified packaging. This incident occurred in FY 1988, when a radiography camera fell from a truck and was struck and dragged by an automobile.

Remediation and Licensing for Long-Term Care of Uranium Recovery Sites

The licensing action for long-term care involves issuing a letter to the DOE accepting its long-term surveillance plan (LTSP) for a particular site. For FY 1995, the NRC projected that nine uranium recovery sites would be remediated and licensed for long-term care. However, the NRC only received three LTSP submittals for review. As of the end of FY 1995, one LTSP was accepted, and the other two were under review with acceptance expected during FY 1996.

Ultimately, a total of 54 uranium recovery sites will be licensed for long-term care under general license provisions in 10 CFR 40.27 and 40.28. The 54 sites include 22 NRC-licensed sites (including the Envirocare 11e.(2) commercial disposal site), 9 Agreement State sites, and 23 sites being remediated under the Uranium Mill Tailings Radiation Control Act Title I program. These 54 sites either are undergoing remediation, or will begin remediation sometime in the future following completion of operations. It should be noted that 4 of the 54 sites are currently in an operational or standby mode, therefore they are not ready for reclamation. To date there have been 4 sites licensed for long-term care, all of which are sites under the DOE Title I program. The NRC expects that it will take 10-15 years to complete remediation and licensing action for the additional sites, with a few sites being completed each year. The number of sites that have been remediated by fiscal year is shown below in Table 4.

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Table 4
Remediation and Licensing for
Long-Term Care of Uranium Recovery Sites
(Total Sites to be Remediated = 54)

	FY1991	FY1992	FY1993	FY1994	FY1995
Sites Remediated and Licensed for Long-Term Care	0	0	1	2	1

Note: This chart contains revised data for FY 1991 through FY 1995, based on the revised performance measure including the total number of uranium recovery sites considered for remediation and licensing for long-term care (i.e., Agreement State, DOE, and NRC sites). The previous performance measure only included 27 NRC licensed sites (Title II). This display more accurately shows the total number of sites within NRC's purview. It should be noted, however, that 4 of the 54 sites are currently in an operational or standby mode, and are therefore not ready for reclamation.

Site Decommissioning Management Plan

Several hundred NRC materials licenses are terminated each year. Most of these NRC-licensed operations result in little or no contamination of buildings or soil, and decommissioning actions leading to the termination of these licenses normally proceed in a routine fashion. Non-routine cases may involve sites where buildings, former waste-disposal areas, large piles of tailings from metal extraction operations, groundwater, or soil are contaminated with uranium, thorium, or other radionuclides. These non-routine cases present varying degrees of radiological hazard, remediation complexity, and associated cost.

The Site Decommissioning Management Plan (SDMP) is used to ensure that generic and case-by-case issues affecting the timely decommissioning of these more difficult contaminated sites receive the appropriate level of management attention. There are currently 48 sites on the SDMP list; 3 sites were planned for remediation, and 3 sites were removed from the list in FY 1995 (as shown in Table 5).

The remediation and removal of sites from the SDMP list have been delayed by policy issues and technical problems related to cleanup. Many potential impediments in the decommissioning

process may be unforeseen when planning to release sites from the SDMP list; such impediments make it difficult to establish a timetable for releasing these sites. However, the process and procedures that the NRC uses in overseeing SDMP site decommissioning efforts continue to become more clearly defined. In addition, the policies and precedents developed to resolve SDMP site issues are increasingly being applied to the more routine decommissioning cases.

High-Level Nuclear Waste Regulation

The High-Level Nuclear Waste Regulation Program includes all of the NRC's public health and safety licensing, inspection, and environmental reviews for the safe management and disposal of high-level radioactive wastes, as well as research to assess the safety of high-level waste management, storage, and disposal. These regulatory activities are mandated by the Nuclear Waste Policy Act (NWPA) of 1982, the Nuclear Waste Policy Amendments Act (NWPAA) of 1987, and the National Energy Policy Act (NEPA) of 1992.

The NWPA specifies a detailed approach for long-range high-level waste disposal, with DOE having operational responsibility and the NRC having regulatory responsibility. This undertaking involves a complex, integrated system of waste handling, transportation, interim and

Table 5
SDMP Contaminated Sites
(Total Sites to be Remediated = 48)

	FY1991	FY1992	FY1993	FY1994	FY1995
Sites Planned for Remediation	2	2	4	8	3
Sites Remediated	0	1	1	3	3

retrievable storage, and ultimate deep geologic disposal of high-level waste, requiring the protection of the public health and safety and the environment over thousands of years.

The NWPAA directs the DOE to characterize only one candidate site, the Yucca Mountain site in the State of Nevada, and to terminate site-specific activities at all other candidate sites. The NEPA directs the NRC to revise its regulations (10 CFR Part 60) within 1 year after the Environmental Protection Agency (EPA) issues new standards.

License Application Review Plan

The NRC is currently developing a license application review plan (LARP), NUREG-1323, which the NRC staff will use in reviewing the DOE's license application for a high-level waste repository, and in performing preclicensing reviews of the DOE site characterization program. Individual review plans comprise sections within the LARP consisting of the compliance determination strategy, applicable regulatory requirements, and review procedures and acceptance criteria for the 97 regulatory requirements of 10 CFR Part 60, "Disposal of High-Level Radioactive Wastes in Geologic Repositories."

In FY 1995, the NRC completed 9 (75%) of the 12 individual review plans originally intended for completion during this fiscal year. Of the three incomplete individual review plans, one was placed on indefinite hold, and the remaining two were scheduled for completion in FY 1996 or beyond. The individual review plan placed on indefinite hold was actually completed through internal review, but was not released because of potential rulemaking activity that could change the standards for performance assessment. This rulemaking activity is not scheduled for several years.

The NRC reallocated resources from the individual review plans to further streamline its program. This streamlining will enable the NRC to focus on dealing with key technical issues required to respond to the DOE's Proposed Program Approach.

DOE Study Plans for High-Level Waste Repository

In previous years, the NRC measured its performance based on the number of DOE study plans reviewed, compared to the number planned for review during a given fiscal year. This performance measure is no longer applicable, since the NRC proposed to streamline its preclicensing document reviews as part of its response to the DOE's Proposed Program Approach, which was issued in mid-FY 1994. Specifically, the NRC proposed that it would only review and comment on three types of documents, including the statutorily required site characterization plan progress reports, the annotated outline for the license application, and a very limited number of topical reports identified by the DOE. The DOE determined it would continue to submit study plans to inform the NRC of ongoing activities, but the NRC will only formally review the DOE study plans that are important to a review of one of the three primary types of documents or related to a particular site visit.

Regulatory Research Program

The primary goal of the NRC's Regulatory Research Program is to ensure that research provides sound technical bases for timely rulemaking and decisions in support of regulatory licensing and inspection activities. As part of this Regulatory Research Program, the NRC conducts research to provide independent information and expertise to support its safety decision making, and to assess the safety significance of potential technical issues.

Research is generally planned and initiated in response to the needs of the regulatory licensing and inspection programs, or is directed in response to Commission decisions. Research priorities are determined by the overall value, importance, and impact that the research findings may have in responding to these program needs. Major research accomplishments in FY 1995 included the following:

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- Completed modifications to the Rig of Safety Assessment (ROSA) facility and successfully carried out 14 Phase I tests to validate the applicability of NRC codes to the AP600 design and confirm the predicted performance of plant safety systems. In all tests, the passive safety systems functioned as designed, suggesting that the reactor can be successfully cooled under a variety of postulated accident conditions.
- Completed construction of the full-pressure, 1:4-scale SBWR at the Purdue University Multidimensional Integral Test Assembly (PUMA). This facility will be used to study the behavior of the SBWR design under postulated accident and transient conditions.
- Under the “Marginal-to-Safety” Program, published revisions to the Appendix J to 10 CFR Part 50 requirements for containment leakage testing. Continued working on a process to provide expeditious handling of petitions that include comprehensive cost/benefit analyses and justifications for the proposed rule change. This will allow licensees wishing to reduce the regulatory burden to effect faster rule changes in return for providing a complete regulatory analysis.
- Developed and issued for public comment guidelines for the human engineering evaluation of advanced, computer-based displays and controls (NUREG-0700, Revision 1). Developed methods for identifying functional and environmental issues related to the application of advanced instrumentation and control (I&C) systems. Issued regulatory guidance on methods for evaluating the effects of electromagnetic and radio frequency interference on digital I&C systems.
- Initiated research in the area of high-burnup fuel. Code improvements are being made to accommodate higher burnups based on data now available from foreign sources. Negotiations have also been largely completed to obtain test data on high-burnup fuel subjected to reactivity-initiated accident conditions from foreign sources. Preliminary information from these sources suggests that NRC’s fuel damage criteria may not be adequate for such high-burnup fuels. In May 1995, performed an important high-burn up fuel test that exhibited no cladding failure.
- Forwarded regulatory requirements updates to the Commission which were previously identified during the staff’s evaluation of the Yankee Rowe plant. These regulatory updates include (1) fracture toughness rule amendments to 10 CFR 50.61 and Appendix G to Part 50, (2) material surveillance rule amendment to Appendix H to Part 50, and (3) new rule and regulatory guide on the thermal annealing of reactor vessels.
- Issued a final rule (10 CFR Part 76) to certify operation of the gaseous diffusion enrichment facilities leased from the Department of Energy (DOE) by U.S. Enrichment Corporation. Covered both the certification process and the standards to be used to judge acceptable performance for certification.

Generic Safety Issues

Generic safety issues (GSIs) involve safety concerns that may affect the design, construction, or operation of all, several, or a class of reactors or facilities. Such issues may also have a potential for safety improvements and the issuance of new or revised requirements or guidance. During FY 1995, the NRC identified and prioritized two GSIs and resolved another. Resolution of the large backlog of GSIs of a few years ago is essentially completed.

NRC Regulations

The NRC establishes the rules that operators of nuclear facilities and users of radioactive materials must follow. These rules are intended to protect persons using radioactive materials, as well as the general public, from the potential hazards of radioactivity. NRC regulations are established or changed, as necessary, on the basis of recommendations from NRC staff. Members

of the public and interested organizations can also request changes in regulations. The views of the public, the industry being regulated, and other interested parties are usually solicited before the Commission adopts new rules or changes. In FY 1995, the NRC completed 22 rules.

Responsiveness to the Public's Safety Concerns

All allegations received by the NRC are initially considered to have a potential effect on

public health and safety, and the NRC reviews each allegation to determine its safety significance and the effect on health and safety. If the allegation deals with a technical issue and wrongdoing is not suspected, the agency's goal for closing the allegation is an average of 6 months from receipt. If the allegation pertains to wrongdoing by an NRC licensee, the agency's goal for closing is an average of 18 months from receipt. Allegations requiring review outside the NRC

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Testing of a Variety of Covers for Low-level Waste Disposal, Maryland Agricultural Experiment Station, Beltsville, Maryland



Soil beam used to measure unsaturated flow properties of soil used in covers for radioactive waste disposal sites.



Lysimeter experiments on cover performance. The cover shown is "bioengineering water management," which is highly effective at sites susceptible to subsidence or underlain by low-permeability media.

(e.g., by the Department of Justice or Department of Labor) are not subject to these standards. Overall, the NRC's mean time to close allegations has improved over the years, primarily because of an increased emphasis and focus on case inventory management throughout the agency.

Figure 12 shows the mean time in months to close the two types of allegations for which standards have been established. The mean time to close is calculated based on the year the allegation is received.

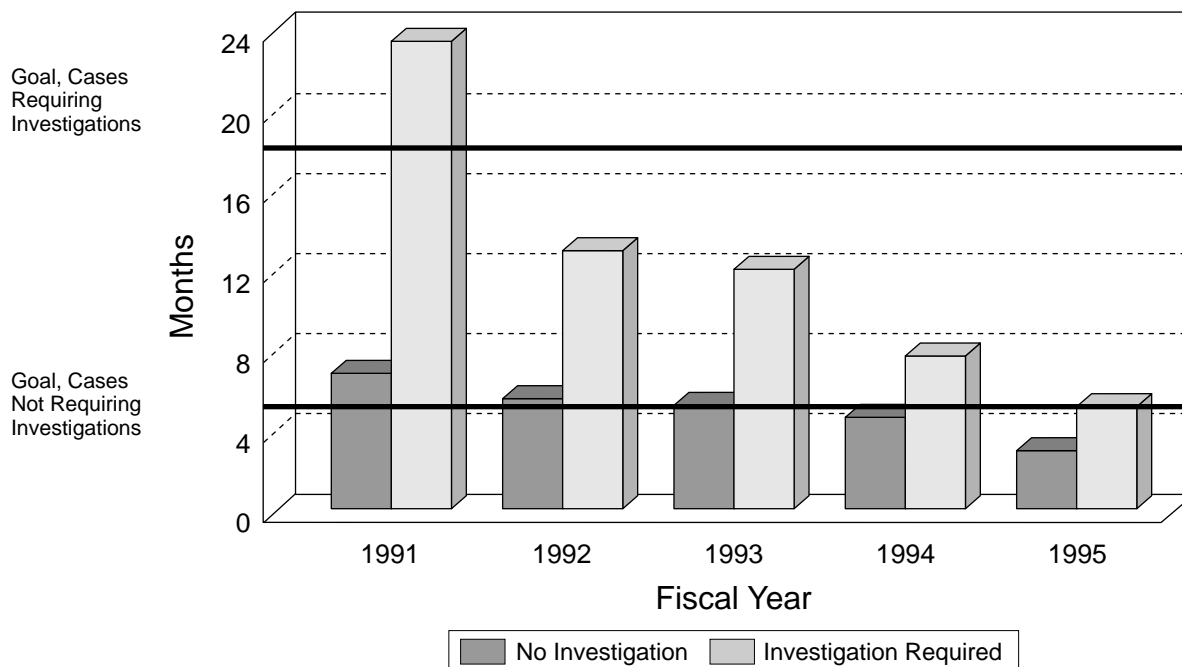
The purpose of the NRC's enforcement program is to support the agency's overall safety mission to protect workers, the public, and the environment by using enforcement sanctions to encourage prompt identification and comprehensive correction of violations, and as a deterrent to

emphasize the importance of compliance with requirements. The three primary enforcement sanctions available are notices of violation; civil penalties; and orders to modify, suspend, or revoke licenses.

Violations are classified by severity level, based on regulatory or safety significance. Severity levels range from Level I for the most serious violations to Level IV for the least serious. (The Enforcement Policy was revised in June 1995 to eliminate Severity Level V violations.) Civil penalties are normally assessed for violations of Severity Level I to III.

The average time to issue escalated enforcement actions (Severity Levels I to III) continues to be a performance measure. For actions that do not involve an investigation, the measurement

Figure 12
Mean time to Close Allegations



Note: This chart contains revised data for 1991 through 1994. During the FY 1995 evaluation of the data collection system, the NRC discovered an error in its computer program which had caused a miscalculation in prior years' closure reports; the chart above reflects the correction for all years.

period begins on the date of the inspection exit meeting. For actions that involve an investigation but no referral to the Department of Justice (DOJ), the measurement period begins on the date of issuance of the investigation report. For actions that involve an investigation and referral to the DOJ, the measurement period begins on the date on which the DOJ informs the NRC that the agency may proceed with the actions. For actions that involve discrimination and Department of Labor (DOL) proceedings, the measurement period begins when an appropriate decision is reached in the DOL process, or sufficient evidence is obtained from the NRC's processes to support the actions.

Based on the defined measurement period, escalated enforcement actions are to be issued within an average of no more than 90 days. This standard was met for FY 1995, during which the NRC issued 118 Severity Level I, II, or III enforcement actions in an average of 70.5 days.

Table 6 shows the amount of civil penalties assessed and the amount collected in FYs 1991 through 1995, distributed according to the year in which the civil penalty was collected. The amount of each civil penalty assessed reflects the amount that the NRC ultimately decides is appropriate in each case through its enforcement or hearing process.

Table 6
Amount of Fiscal Year Civil Penalties Collected
Versus Fiscal Year Penalty Dollars Assessed

Fiscal Year	Assessed	Collected	Percent Collected
1991	\$2,724,873	\$2,724,873	100
1992	\$4,630,815 ¹	\$4,610,815	99.57
1993	\$4,180,875 ²	\$4,178,557 ³	99.94
1994	\$3,855,675	\$3,885,675	100
1995	\$2,289,285	\$2,289,284	100

¹ This amount includes \$20,000 for two cases that were withdrawn after further consideration following the licensees' responses.

² In some cases, the amount imposed has been changed to reflect a settlement.

³ This amount reflects the total amount assessed for a case for which an agreement was reached to pay in full, but in installments. Only a portion was collected in FY 1993, 1994, and 1995, but the licensee has committed to full payment.

Figure 13
U.S. Nuclear Regulatory Commission

